

Meeting Date: 12-09-08

# AGENDA REPORT

Agenda Item # YA-6

Santa Clara



City of Santa Clara, California



**DATE:** December 5, 2008

**TO:** City Manager for Council Action

**FROM:** Director of Finance

**SUBJECT:** Acceptance of City of Santa Clara Audited Comprehensive Annual Financial Report (CAFR) and Audited Separate Financial Report for the Electric Utility Silicon Valley Power for Fiscal Year Ended June 30, 2008 as Recommended by the City Council Audit Committee.

## EXECUTIVE SUMMARY:

The annual financial audit of the City has been completed and has resulted in the issuance of the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2008. The City's external auditor, Vavrinek, Trine, Day & Co., LLP (VTD), conducted the annual financial audit and issued an "unqualified opinion." The CAFR includes an extensive discussion and presentation of the financial data of the City and its related agencies in accordance with generally accepted accounting principles applicable to governmental entities. The CAFR also includes selected multi-year statistical information about the City. In addition, the City is issuing a separate, comparative financial report for the Electric Utility including an "unqualified opinion" from VTD for fiscal year ended June 30, 2008.

Staff and VTD presented and reviewed the CAFR and the audit process with the City Council Audit Committee on December 4, 2008. The Audit Committee recommends that Council accept the CAFR as presented. As in the prior year, VTD's Code of Professional Conduct is included with this agenda report. The audited annual financial reports and the American Institute of Certified Public Accounts (AICPA) Statement of Auditing Standards No. 61 are available for information and review at the Santa Clara City Hall in the City Council Offices, the City Clerk's office, and the public libraries. After Council acceptance, the CAFR will be available on the City's web site at [www.santaclaraca.gov/finance.fi\\_caf.html](http://www.santaclaraca.gov/finance.fi_caf.html).

## ADVANTAGES AND DISADVANTAGES OF ISSUE:

The annual financial audit is a City Charter requirement. The CAFR presents the audited financial information of the City in accordance with generally accepted accounting principles applicable to governments and enhances the City Council financial oversight responsibility and information to creditors and the citizens. The separate annual financial report for the Electric Utility is presented to make available additional information and disclosure relevant to the electric industry. The CAFR unqualified opinion enhances the reputation of the City.

**ECONOMIC/FISCAL IMPACT:**

The staff costs associated with the audit and financial reports production are included in the annual appropriations of the Finance Department. Acceptance of the CAFR does not incur any additional costs.

**RECOMMENDATION:**


That the Council:

- 1) accept the City of Santa Clara audited Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2008 as recommended by the City Council Audit Committee,
- 2) accept the separate financial report for the City's Electric Utility Silicon Valley Power,
- 3) direct the City Manager to file the City's external auditors, Vavrinek, Trine, Day & Co., L.L.P., Code of Professional Conduct.

APPROVED:



Mary Ann Parrot  
Director of Finance

  
Jennifer Sparacino  
City Manager

***Documents Related to this Report:***

- 1) *Comprehensive Annual Financial Report*
- 2) *Electric Utility Financial Statements*
- 3) *Vavrinek, Trine, Day & Co., L.L.P.'s Code of Professional Conduct*
- 4) *AICPA Statement of Audit Standards No. 61*

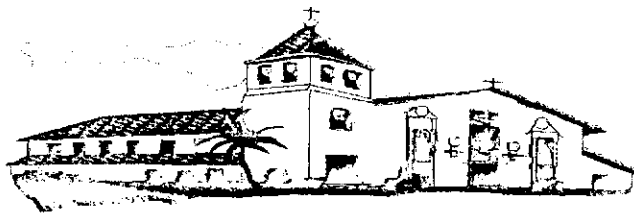
**COMPREHENSIVE  
ANNUAL FINANCIAL  
REPORT**



**FISCAL YEAR ENDED  
JUNE 30, 2008**

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2008



The  
Mission City

CITY OF SANTA CLARA, CALIFORNIA  
1500 WARBURTON AVENUE  
SANTA CLARA, CA 95050-3796

PREPARED BY DEPARTMENT OF FINANCE

## *Introductory Section*

# CITY OF SANTA CLARA

## Comprehensive Annual Financial Report

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# **CITY OF SANTA CLARA**

## **Comprehensive Annual Financial Report**

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Mary Ann Parrot  
Director of Finance

December 2, 2008

Citizens of the City of Santa Clara  
The Honorable Mayor and City Council  
City of Santa Clara  
Santa Clara, CA 95050

Dear Citizens, Mayor and Members of the City Council:

The Comprehensive Annual Financial Report (CAFR) of the City of Santa Clara (City) for the fiscal year ended June 30, 2008, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the various funds of the City. All significant disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

One of the City Council's principles for 2007-09 was to move to a structurally balanced budget and increase General Fund reserves utilizing the six-point strategy outlined below. As a result of the improvement in the regional and local economy during 2007-08 and the City's concerted and successful efforts at holding expenses down, the Council was able to add \$7.8 million to reserves at the end of fiscal year 2007-08. The cause of the surplus is due primarily to two factors: first, revenues coming in above budget and increased transfers in (\$5.2 million) and second, budgetary surplus in expenditures (\$2.5 million) due to under spending by several departments across the City even after including salary and benefit increases and 30 frozen positions. Other factors included the ability to use interest earnings on the Land Sale Reserve (\$750 thousand), discussed further below.

In June 2007, City Council adopted the following plan to succeed in the goal of replenishment of the reserves:

1. Continue to maintain a structurally balanced budget; that is, a balanced budget without the use of reserves.
2. If excess revenues are available, set aside the first \$3.0 million per year for the next five years in the General Fund Emergency (Working Capital) Reserve. In fact, \$3.75 million was contributed to the Working Capital (Emergency) Reserve in 2007-08. This reserve stands at \$21.1 million, as forecast. This represents 14.2% of the 25% reserve as set by City Council policy; in other words, the \$21.1 million represents over half of the funds needed in this reserve, as set by City Council policy.
3. Reallocate interest earnings from the Land Sale Reserve to Working Capital (Emergency) Reserves when not needed to balance the General Fund. This was accomplished in 2007-08 and is reflected in the deposit of \$750 thousand to the Working Capital (Emergency) Reserve.
4. If excess revenues are available above the level of \$3.0 million, deposit the remaining excess funds in the Capital Project Reserve. The addition to the Capital Project Reserve for 2007-08 was \$4.1 million, bringing the June 30, 2008 balance to \$10 million. After the July 1, 2008 appropriation for capital spending and Workers Compensation for 2008-09, the Capital Project Reserve stands at \$4.3 million.

5. Provide for annual Council review of this policy as part of the yearly budget process.
6. Refer to the City Manager to develop financing options for future Capital Improvement Projects.

The Governmental Funds Balance Sheet shows fund balances designated by Council for the indicated purposes at the end of the fiscal year 2007-08 as follows:

<b>General Fund Contingency Reserves</b>	<b>Balance at 6-30-08 (millions)</b>	<b>Remarks</b>
Working Capital (Emergency) Reserve	\$21.8	14.2% of the adopted General Fund Budget of \$148.6 million (2008-09). The policy level is 25% of the General Fund Budget, or \$37.1 million. Current reserve is over half of what is required by City Council policy.
Capital Project Reserve	\$10 (\$4.3 after 08-09 appropriation on July 1, 2008)	Minimum required \$5 million. The City has a backlog of \$88 million of capital project funding needs during the Five Year Plan 2009-10 through 2013-14.
Land Sale Reserve	\$17.0	Use of interest earnings to balance the General Fund or to contribute to the General Fund Working Capital (Emergency) Reserve; corpus to remain intact.
Building Inspection Reserve	\$3.1 (\$1.0 after 08-09 appropriation on July 1, 2008)	Use for capital or operating funds for Building Inspection Division of Planning and Inspection Department.

Two key challenges face the City's General Fund over the next several years: first, continue to replenish reserves and second, develop alternatives for financing \$88 million in needed capital improvements over the next five years. The City has no identified sources of financing for \$62 million of these projects. The City Council and staff have included these objectives in the priority goals for the next budget cycle.

During fiscal year 2007-08, the City used a six-pronged strategy to improve the financial picture for the General Fund. This strategy will continue for the next several years.

- Increase fees and cost allocation to approach full cost recovery, continuing a strategy put in place several years ago.
- Hold positions frozen when vacant due to attrition and/or retirement; continue to review departmental organization and eliminate services where outdated, unnecessary or where services could be automated.
- Defer or delay capital projects unless necessary for critical or essential City functions. Prioritize those critical and/or essential projects to maximize the benefit from capital expenditures.
- Continue to work with developers and the community to retain and add revenue-producing businesses.
- Implement the strategies mentioned above to replenish General Fund reserves.

- Continue to research tax and/or fee increases.

Replenishing reserves and budgeting for necessary capital projects in the City's General Fund will take a sustained effort over several years, especially because staff and the City Council have already reduced expenditures and modified services as the organization has responded to financial challenges over the past five years.

The other major funds for the City are also discussed later in this letter, as well as further analyzed in Management's Discussion & Analysis in the Financial Section of this CAFR.

## **ECONOMIC ENVIRONMENT AND CITY OVERVIEW FOR 2007-08**

The City enjoys a diversified industrial and commercial base. Santa Clara is headquarters to some of the nation's leading electronics, telecommunications, computer, and semiconductor firms. In terms of total assessed valuation, approximately 46% of the City's property is commercial/industrial and 54% is residential. The City is also home to a university, a community college, an adult learning center, and a general hospital.

In 2008 at the national level, the unprecedented disruption in the financial markets leaves the economy facing the most serious challenges in the post World War II era. The housing market is a continuing strain, unemployment is rising and reached 6.1% in September and in October the current consumer sentiment index fell to an all time low of 58.9. The Blue Chip consensus forecast projects that a recession or contraction in the national economy started in the fourth quarter of 2008. While the local economy is also expected to experience a downturn, it is projected to be far less severe than in the early 2000's when the Bay Area experienced the meltdown in high technology. According to the Beacon Economic forecast the recession will be milder for the South Bay but no significant economic recovery is expected to occur before 2012-13. Locally, this means both sales and property tax revenues will be negatively impacted over the next several years. The weaker economic activity should also hold inflation in check. This should be led by a drop in housing, food, energy and commodity prices. The economy is in uncharted waters. There are no historical benchmarks for comparison and with such high volatility in the markets it would be unwise to predict with any degree of certainty the City's near term economic performance.

The State's long-term budget challenges further complicate the City's financial picture, especially the Redevelopment Agency.

At the local level, the City's population continued to grow indicating the City remains an attractive place both to live and to work. According to the California Department of Finance's Demographic Research Unit, the City's population grew from 114,066 in January 2007 to 115,503 in January 2008. This is an increase of 1.3%. Demographers consider that population increases of 1% are normal growth; these figures mean the City grew significantly last year.

The economy in the Silicon Valley region, and in particular, the City of Santa Clara, is entering another difficult period. However, the epicenter of this downturn is elsewhere this time, in the real estate and finance sectors, so while the Bay Area will be negatively affected, it will not be the primary target as it was in the early 2000's. The consensus economic opinion is that the downturn will occur later in Silicon Valley, in part because of exports. Also, the overall impact of this period of economic turmoil on Silicon Valley will be less severe than that experienced in

other regions. However, economic downturns are never painless. Local companies are expected to announce lay offs, the funding of start ups will grow increasingly tighter and the financing of large commercial projects will be difficult at best. The housing market is not expected to start recovering until early 2011. But in the long term the Silicon Valley is expected to remain a leader in cutting edge technologies, will continue to have a labor market second to none and will maintain its adaptability to the ever changing economic realities. The City remains one of the most highly desirable areas to live in because of the high quality services it provides to residents and its business friendly environment.

#### General Fund Overview

The fiscal 2007-08 total revenues to the General Fund, as reported in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, were \$1.0 million higher compared to prior year. While sales tax revenues declined \$2.6 million, the General Fund's other major direct revenue sources – property, transient occupancy tax, and other local taxes were \$2.6 million higher than in the previous fiscal year. Revenues from charges for services were up \$1.9 million and the remaining revenue sources had a net decrease of \$982 thousand. The City's direct and indirect expenditures were up \$6.9 million, due primarily to increased costs of salaries and benefits approved for employees.

Detailed discussions on the financial results of all funds is included in the Management Discussion and Analysis (MD&A), found in the Financial/MD&A Section of this CAFR.

## **CITY MISSION, VISION, AND GOALS**

### **Mission Statement**

The mission of the City of Santa Clara is to promote a living and working environment that allows for the best quality of life by serving the community with resourceful, efficient, progressive and professional leadership. (Approved by City Council on July 25, 1989.)

### **Vision**

SANTA CLARA: Superb, affordable services in a caring community that values our rich history and nurtures technologies that build the future.

In May 2007, the City Council adopted the Council priority and supporting principles for fiscal years 2007-08 and 2008-09.

### **Council Priority:**

The City Council priority is to focus on successful completion of existing City projects, postpone new City projects and proposals, and operate within Council adopted budget principles and priorities, with the goal of guiding the City successfully to economic prosperity.

### **Supporting Principles:**

- Maintain Superb/Affordable Core Services,
- Foster Public Trust/Demonstrate Leadership,

- Work Efficiently with Focus on Fiscal Responsibility,
- Support and Celebrate Community/Volunteer Partnerships,
- Pro-active Economic Development/Fiscal Partnerships.

The City Manager, with the assistance of City department heads, has developed implementation plans for achieving these goals and the related objectives. Quarterly status reports of accomplishments are prepared and presented to the City Council as several action plans related to each goal are completed. Reports to Council are available on the City's website, [www.santaclaraca.gov](http://www.santaclaraca.gov).

## **MAJOR CITY INITIATIVES**

### **Public Facilities and Special Programs**

#### New Public Facilities

The City has been upgrading or adding new facilities to enhance its service delivery to citizens including the following.

- Fire Station 4 opened in April 2008, a replacement for the 45-year old station.
- Council had authorized the relocation of the Communications Dispatch Center from the Emergency Operations Center to the Police Building following the reorganization in 2007 which put the Dispatch function in the Police Department. The completion of that project is planned for Fall 2009.
- The City celebrated its third full-year of operation of its new Central Park Library. Over 51,100 residents have active library cards. During 2007-08 alone, the library will be host to 1.3 million visitors, checking out over 2.5 million items.
- The Council budgeted the full estimated cost to build the Northside Branch Library in the North of Bayshore area of the City where there has been a significant increase in residential development.
- The first year of operations of the expanded Senior Center indicate that the additional services and facilities have been very well received by the community.

#### Special Programs

The Council is focusing on programs in two areas: Emergency Preparedness and Green Programs.

Many City departments are cooperating to implement programs that save energy and in the Spring 2008, the City produced a comprehensive newspaper insert, "Green, Greener, Greenest, A Summary of the City of Santa Clara's Efforts to Protect the Environment," highlighting a long history of City environmental sensitivity. The publication is available at the City's website: [www.santaclaraca.gov/city\\_gov/green\\_city\\_greener.html](http://www.santaclaraca.gov/city_gov/green_city_greener.html). This is part of a long-term effort to adopt environmental best practices throughout the City that have ranged from planting more trees to establishing one of the nation's first solar utilities in 1975, and introducing the Bay Area's first recycled water program nearly twenty years ago, in addition to many green energy initiatives.

Public Safety's programs include expanded Home Emergency Assistance Team (H.E.A.T.) training program with classes offered for residents and City employees and establishing additional Neighborhood Watch programs in the City.

## **Land Use/Neighborhood Issues**

### Affordable Housing Programs

The City is currently in its fourth year of another 5-year capital budgeting program for providing affordable housing and housing-related services to the community. This includes housing service programs, fair housing investigations, the mortgage assistance program, below market rate program, housing rehabilitation, and housing development projects. On average, the annual goal is to assist 180 housing units and 875 persons in some form or another by the City and RDA affordable housing programs including funding for first time homebuyers, teacher housing, at-risk youth housing, transitional housing for survivors of domestic violence and housing rehabilitation for both homeowners and rental facilities. These programs are administered either directly by the City and RDA, or through non-profit service agencies such as Neighborhood Housing Services Silicon Valley, Catholic Charities, Council on Aging, EHC Life Builders, Next Door, Project Sentinel, and Silicon Valley Independent Living Center.

Specific projects include:

- The Santa Clara Gardens Project on the former State agriculture station property of the former BAREC site, which includes the construction of 162 affordable apartment units for low and very low income seniors, a 1-acre park, and 110 single family at-market homes to be built by a private developer.
- The Belovida Senior Apartment project proposed for the Martin property, consisting of 30 units for very low income seniors.
- The Below Market Purchase (BMP) Program for implementation of the City's housing policy was revised effective January 2007. During fiscal year 2006-07, several low- and moderate-income housing projects which included affordable units were completed or started and continue into 2007-08.

## **Economic Development**

The City of Santa Clara has a team approach to economic development, anchored by emphasis on high quality services, including reliable energy, water and other utility services at the lowest combined utility rates in the nine-county region.

### General Plan Update

The City commenced a \$2 million update of the City's General Plan, required by State Law, for the time period 2010-2035. The effort will take significant time on the part of the community, both residents and businesses, as well as a concerted team effort by all departments. The Planning Division is responsible for the update; meetings with the community and internally have begun in earnest. Projections are for the housing element to be updated by mid-2009 and the balance of the General Plan to be completed in 2009-10.

### Redevelopment Agency

The North of Bayshore Redevelopment Project Area is one of the key elements of the City's economic development program.

In the Redevelopment Agency, activity for the year can be categorized in two major areas: housing and projects. Affordable housing was discussed in the previous section of this letter. Major projects include the evaluation of the San Francisco 49ers proposal to build a stadium in the North of Bayshore project area and the Downtown Revitalization project in the University project area.

In April 2007, the San Francisco 49ers presented a proposal to build a new 68,000-seat stadium in the vicinity of Great America Theme Park, the Convention Center and the Hilton Hotel. The City has concluded the feasibility study and City Council has met with the community to discuss the findings. In June 2008, the City and the 49ers Team agreed to delay the proposed November 2008 ballot initiative to 2009, to allow for negotiations with Cedar Fair to be completed, which in turn could impact the negotiations with the team. Staff expects to return to City Council in early 2009 with recommendations for a term sheet.

The University Project Area includes the site of a proposed mixed-use concept of retail, office and housing on a parcel of 7.3 acres in the City's old quad area, the original downtown for the City of Santa Clara. The concept is for 350-400 housing units, 125,000 square feet of retail, and refurbishment of an existing office building. City Council had approved commencing discussions with Summerhill/Highland, two subsidiaries of The Marcus & Millichap Company, a major developer in the area. As a result of a request from the developer, City Council approved putting a hold on the discussions. The primary reason was a lack of demand due to the deterioration in the housing and commercial real estate sectors.

### **Santa Clara Utilities**

#### Santa Clara Electric Utility d.b.a. Silicon Valley Power (SVP)

The City continues to proactively address the electricity needs of the community to better serve the City's businesses and residents. SVP's Five-Year Plan includes funds for operations and capital refurbishments of substations and the Don Von Raesfeld Plant, as well as green power initiatives.

In accord with the Electric Utility's Five-Year Plan, and in response to termination of two advantageous long term contracts and increased volatility in energy costs, City Council approved the first rate increase in thirteen years for the electric utility in 2006. City Council further approved two additional increases: 3% for January 2008 and 3% for January 2009. In 2008, the Electric Utility is anticipating load growth of 1.2% to 1.5% over the next fiscal year, slower than the anticipated 3% to 6% earlier anticipated. Resource and production expenditures increased due to Independent System Operator (ISO)-related contractor costs, increased material costs and additional resource costs driven in part by significant reduction in lower cost hydroelectric power resulting from a dry year. Staff is evaluating the financial position of the utility and will return to City Council in 2009 with further recommendations.

SVP continues to expand its energy efficiency and Green programs funded in part by the Electric Utility Public Benefits Charge (PBC) Programs. The State of California mandates the collection of a public benefit charge equal to 2.85% of customer electric bills that is dedicated and used for public benefit programs such as energy efficiency, energy renewable resources, research, development, demonstration and low income assistance programs.

#### Water and Sewer Utilities

In addition to providing efficient and affordable water and sewer utility services to Santa Clara residents and businesses, the City continues to undertake programs to improve water quality and water supply reliability for its residents and to minimize treated sewage effluent discharge into the South Bay. The cost of wholesale water the City purchases from other entities for resale to the residents and of wastewater conveyance and treatment are increasing. Council approved fiscal year 2007-08 water and sewer rate increases of 9% and 10%, respectively.

A study of sewer capacity during 2006-07 showed the need to begin to plan for a \$27 million expansion of the distribution system in order to handle the increased capacity from residents moving in on the west side of the City. The City will issue bonds in fiscal year 2008-09 to fund construction of additional sewer utility distribution lines on the west side of the City. In addition, the City is conducting a master plan development of sewer capacity in the City and will return to City Council in early 2009 with sewer rate recommendations. A water rate study is planned for 2009-10.

The City continues to expand its recycled water program. Currently 13 City parks, the Santa Clara Youth Soccer Park, City Cemetery and Santa Clara Golf and Tennis Club and the Donald Von Raesfeld Power Plant are using recycled water. The City now saves 1,200 acre-feet of potable water per year due to the implementation of the recycled water program.

### **THE REPORTING ENTITY AND ITS SERVICES**

The City of Santa Clara, also known as the Mission City, is a charter city incorporated in 1852 under the laws of the State of California. It uses the Council/Manager form of government. The City Council is made up of six Council members and a directly elected Mayor, all of whom serve "at large". The City Council appoints a City Manager who is responsible for the overall administration of the City. The City is located in the County of Santa Clara, California, and is approximately 45 miles southeast of San Francisco and three miles west of downtown San Jose. It is situated in the northern part of the County and occupies approximately 19.2 square miles.

The City provides a full range of services. These services include police, fire protection and emergency dispatch; electric, water and sanitation services; the construction and maintenance of streets and infrastructure; parks and recreational activities and cultural events; planning and zoning; library; cemetery; and general administrative and support services.

This CAFR includes all funds of the City, as well as all activities of entities considered to be a part of, controlled by, and dependent on the City. These entities include the Redevelopment Agency of the City of Santa Clara (Agency), the Public Facilities Financing Corporation (PFFC), and the City of Santa Clara Sports and Open Space Authority (SOSA). In addition, separate financial statements have been issued for both the Agency and the Electric Utility

Enterprise Fund. These separate financial reports are available at the Santa Clara City Hall in the City Clerk's Office.

## **FINANCIAL INFORMATION**

### **Internal Controls**

The management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft or misuse, and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above stated framework. City management believes the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### **Single Audit**

As a recipient of federal financial assistance, the City is responsible for establishing and maintaining adequate internal controls to ensure compliance with applicable laws and regulations related to those programs. Internal controls are subject to periodic evaluation by management and the City's independent certified public accountants.

As part of the City's single audit, tests are made to determine the adequacy of internal controls, including that portion related to federal financial assistance programs, and that the City has complied with applicable laws and regulations. The results of the City's single audit for the year ended June 30, 2008, published in a separately issued report, indicated that there were no material weaknesses in internal controls.

### **Budgetary Controls**

As part of the City's internal controls, it maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the majority of the City funds are included in the annual appropriated budget. In addition, each year a Capital Improvement Project Budget is adopted and a Five Year Financial Plan is updated and accepted by the City Council. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the object category level. The City Manager may transfer appropriations from one program to another within the same fund and the object category of a department without approval from the City Council. All other transfers must be approved by the City Council. The City also maintains an encumbrance accounting system as one technique for accomplishing budgetary control. Encumbrances outstanding at year-end are reported as reservations of fund equity since they do not constitute expenditures or liabilities under GAAP.

As demonstrated by the statements and schedules included in the Required Supplementary Information and Supplementary Information sections of this report, the City continues to meet its responsibility for sound financial management.

### **Measurement Focus and Basis of Accounting**

All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when received in cash, except for revenues susceptible to accrual and revenues of a material amount that have not been received at the normal time. Revenues considered susceptible to accrual are those that are measurable and available to finance the government operation during the year. Expenditures, other than accrued interest on general long-term debt, are recorded at the time liabilities are incurred. The measurement focus of governmental funds is available financial resources. Therefore, long-term assets and liabilities are not reported in governmental funds but instead are reported in the government-wide financial statements.

All proprietary funds are accounted for using the full accrual basis of accounting. Under the full accrual basis, revenues are recorded when they are earned and expenses are recorded as soon as they result in liabilities for benefits received, notwithstanding that the receipt of revenues or payment of expenses may take place, in whole or in part, in another accounting period. The measurement focus of these funds is capital maintenance and therefore, all fund assets and liabilities are reported in the fund.

## **OTHER INFORMATION**

### **Independent Audit**

The City Charter and State of California statutes require the City to have an annual audit by an independently certified public accountant. The City goes to the market with an RFP for audit services every five years. The accounting firm of Vavrinek, Trine, Day and Co., LLP, Certified Public Accountants, was selected by the City Council in 2006, and is in the third of five years as the City's auditor. In addition to meeting the requirements set forth in City Charter and State statutes, the audit is designed to meet the requirements of the federal Single Audit Act of 1984, as amended in 1996, and related OMB Circular A-133. The auditors' report on the basic financial statements and the supplementary combining statements and schedules are included in the financial section of this report. The auditors' reports related specifically to the single audit are included in a separately issued single audit document.

### **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Santa Clara for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. The City has received this prestigious award for the past sixteen consecutive years. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. Staff believes that our current Comprehensive Annual Financial Report (CAFR) continues to meet the Certificate of

Achievement Program's requirements and is submitting it to the GFOA to determine its eligibility for another certificate.

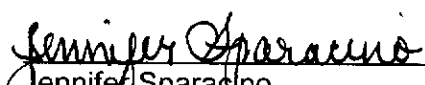
In addition, the City has received the Certificate of Award for outstanding financial reporting from the California Society of Municipal Finance Officers (CSMFO) for the past seventeen consecutive years.

### **Acknowledgments**

We would like to thank the Mayor and City Council for their support in establishing the policies for guiding the financial operations of the City in a responsible and progressive manner. Department Heads are also thanked for their strong leadership in adhering to financial goals and practices. Finally, we wish to acknowledge the excellent participation and professional contribution by the City staff and the City's auditors, Vavrinek, Trine, Day and Co., LLP, in the preparation of this document. Their dedication in preparing the City's Comprehensive Annual Financial Report and their efforts in preparing a document that is understandable and useful to the residents of the City and other readers is greatly appreciated.

Respectfully submitted,

  
\_\_\_\_\_  
Mary Ann Parrot  
Director of Finance

  
\_\_\_\_\_  
Jennifer Sparacino  
City Manager

**CITY OF SANTA CLARA**  
**Comprehensive Annual Financial Report**  
**June 30, 2008**

**ROSTER OF COUNCIL AND COMMISSION MEMBERS**

**CITY COUNCIL**

**Mayor**  
**Councilmember**  
**Councilmember**  
**Councilmember**  
**Councilmember**  
**Councilmember**  
**Councilmember**

**Patricia M. Mahan**  
**Dominic J. Caserta**  
**Will Kennedy**  
**Patrick Kolstad**  
**Joe Kornder**  
**Jamie McLeod**  
**Kevin Moore**

**BOARD OF LIBRARY TRUSTEES**

Robert Byrd, Georgina Aguiar Dinh,  
Janice A. Lieberman, Sandra S. Rich,  
Jack Spillane

**CIVIL SERVICE COMMISSION**

Steven Chan, Andrew Kristalyn,  
Mohammed M. Nadeem Ph.D, Fran A. Palacio,  
Beverly Lynne Silva

**CULTURAL ADVISORY COMMISSION**

Michelle Castro, Martin A. David, Deb Davis,  
Marwan A. Fawal, Al Silva, Phal J. Vaswani

**HISTORICAL & LANDMARKS COMMISSION**

Jim Boynton, Christina Francisco, Mary Ann Marinshaw,  
Gerald McKee, Charles A. Petersen, Ed Richards,  
Rosalie Wilson

**INTERNATIONAL EXCHANGE COMMISSION**

R. Rushton Hurley, Yuki Ikezi, Maria Alice Jensen,  
James Mathre, Eugene Mirabella, Barbara Stahl,  
Peter Yoon

**PARKS AND RECREATION COMMISSION**

Lio Francisco, Julie Frazier, Raymond G. Gamma,  
Steve Lee, Jerry Marsalli, Cynthia Owens,  
Chuck Seymour

**PLANNING COMMISSION**

Frank Barcells, Ian Champeny, Todd Fitch,  
Tony Marine, Teresa O'Neill,  
Mohammed A. Sarodi, Keith Stattenfield

**SENIOR CITIZENS ADVISORY COMMISSION**

Ann Creighton, Patrick Driscoll, Frank E. Kadlecek,  
Foster Steven Lopes, Doris M. Modesitt,  
Edward L. Murphy, Alice Pivacek

**YOUTH COMMISSION**

Ferheen Abbasi, Kelsi Auday, Paul Barghouth,  
Vanessa Harsh, Noama Iftekhar, Jennifer Juniega,  
Kristina Little, Zahida Mubeen, Brian Mulligan,  
Tammy Nguyen, Zedric Ochoa, Niral Patel,  
Eric Spinks, Alex Vargas, Anya Vo

**HOUSING REHABILITATION LOAN COMMITTEE**

Anne Kepner, Brice McQueen, Michelle Smith,  
Jamie McLeod

**CITY OF SANTA CLARA**  
**Comprehensive Annual Financial Report**  
**June 30, 2008**

**EXECUTIVE MANAGEMENT TEAM**

**CITY MANAGER**  
Jennifer Sparacino

**CITY CLERK/CITY AUDITOR**  
Rod Diridon, Jr.

**ASSISTANT CITY MANAGER**  
Ronald E. Garratt

**CITY ATTORNEY**  
Helene L. Leichter

**DEPUTY CITY MANAGER**  
Carol L. McCarthy

**CHIEF OF POLICE**  
Stephen D. Lodge

**DIRECTOR OF PUBLIC WORKS/CITY ENGINEER**  
Rajeev Batra

**FIRE CHIEF**  
Phil Kleinheinz

**DIRECTOR OF PLANNING & INSPECTION**  
Kevin Riley

**DIRECTOR OF ELECTRIC UTILITY**  
John Roukema

**DIRECTOR OF FINANCE**  
Mary Ann Parrot

**DIRECTOR OF WATER & SEWER UTILITIES**  
Alan Kurotori

**DIRECTOR OF HUMAN RESOURCES**  
Alan Christenson (Acting)

**DIRECTOR OF STREETS &  
AUTOMOTIVE SERVICES**  
Richard J. Mauck

**CITY LIBRARIAN**  
Karen Saunders

**DIRECTOR OF INFORMATION TECHNOLOGY**  
Gaurav Garg

**DIRECTOR OF PARKS & RECREATION**  
George Friedenbach (Acting)

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Santa Clara  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



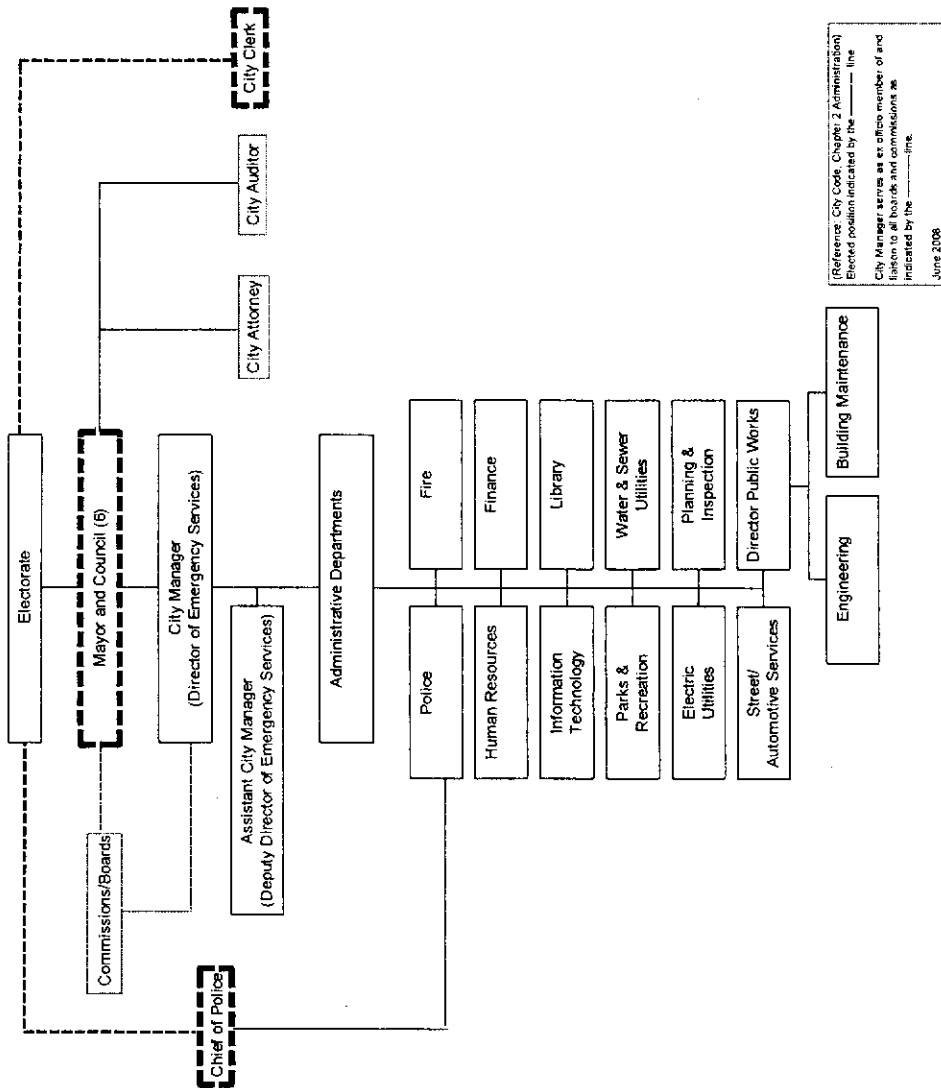
*Chloe S. Cox*

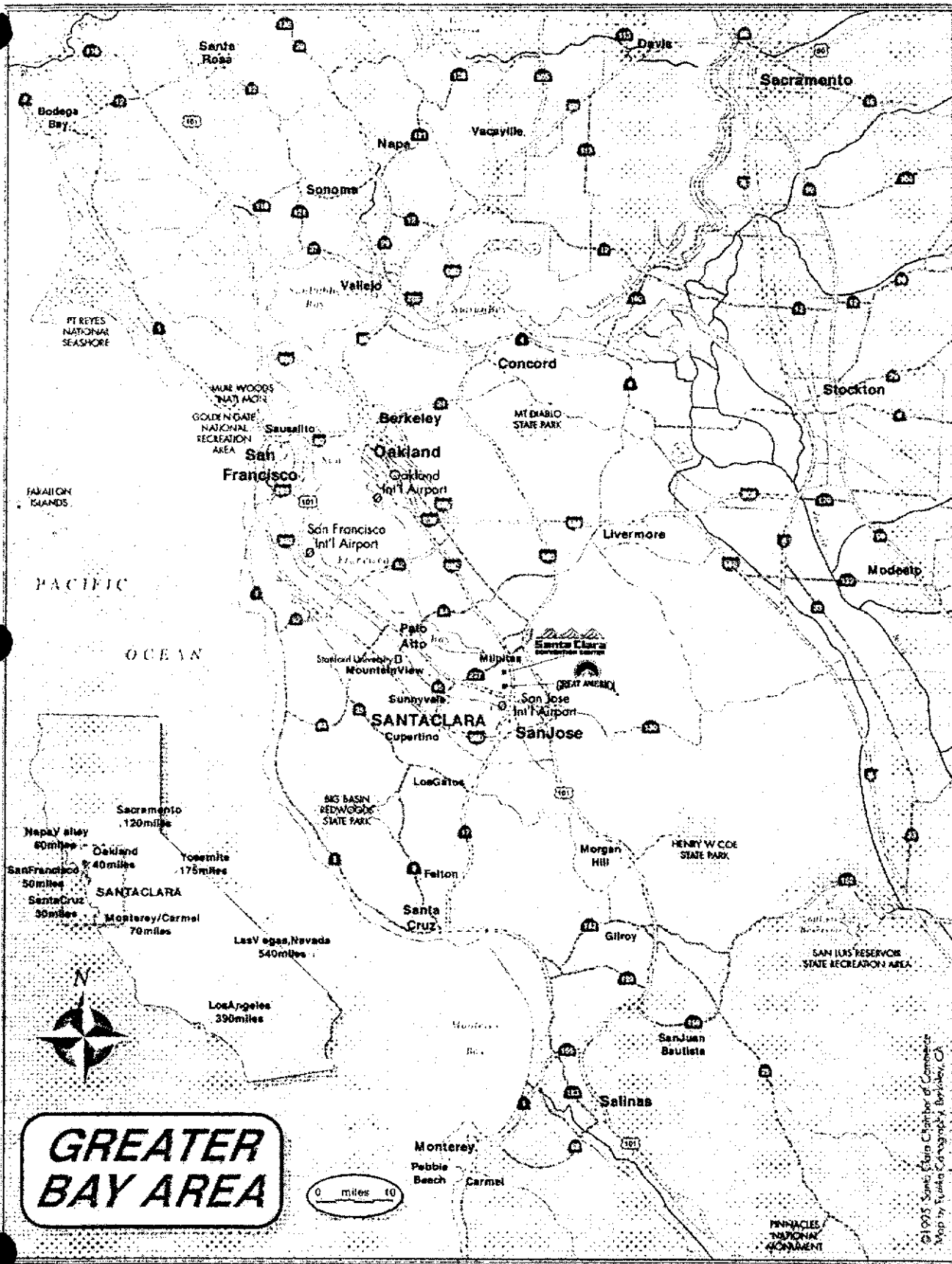
President

*Jeffrey R. Emer*

Executive Director

# CITY OF SANTA CLARA ORGANIZATION CHART





©1995 Santa Clara Chapter of Commerce  
Map by Tullio Caravaggio, Berkeley, CA

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***Financial/MD&A Section***



VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

VALUE THE DIFFERENCE

## INDEPENDENT AUDITORS REPORT

To the Honorable Mayor and Members of the City Council  
of the City of Santa Clara  
Santa Clara, California

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clara, as of and for the year ended June 30, 2008, which collectively comprise the City of Santa Clara's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Santa Clara's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Clara as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of Governmental Accounting Standards Board statement No. 45 for the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 2, 2008, on our consideration of the City of Santa Clara's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The report is an integral part of an audit preformed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Required Supplemental Information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally on inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588 Tel: 925.734.6600 Fax: 925.734.6611 [www.vtdcpa.com](http://www.vtdcpa.com)

FRESNO • LAGUNA HILLS • PLEASANTON • RANCHO CUCAMONGA • PALO ALTO

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic statements of the City of Santa Clara. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Varrinck, Trine, Day & Co., LLP.

Pleasanton, California  
December 2, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the City of Santa Clara's (City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year 2007-08. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

### **FISCAL YEAR 2007-08 FINANCIAL HIGHLIGHTS**

In fiscal year 2007-08 the Bay Area economy, and in particular the Silicon Valley region, continued to expand slowly while employment growth shifted to new areas. The once strong construction and housing sectors along with the financial and mortgage services sectors deteriorated significantly. Total employment in semiconductors and the computer hardware sectors continued to decline while the software and services in design and innovation support sectors continued to grow. Meanwhile retail sales began to show some weakness. Regional economic growth also remained moderate. Unemployment in the City of Santa Clara increased from 4.3% in June 2007 to 5.3% in June 2008. From the first quarter of 2006 compared to the first quarter of 2007, total job growth increased 2.1%. Commercial vacancy rates declined by 1.3% with vacancy rates for R&D space showing the steepest year over year decline of 11.5%. Productivity as measured by value added per employee was up 2%. Residential real estate sales began to decline during the year as inventories of unsold homes began to grow and developers put on hold new residential developments. However, assessed values in the City of Santa Clara continued to increase with the average up 8.61% compared to Santa Clara County with an increase of 8.25%.

In fiscal year 2007-08, the net impact of changes in the various sectors of the local economy resulted in a modest increase in City revenues over the prior fiscal year. Decreases in retail and business to business sales activity and interest earnings were offset by increases in the City's assessed property value, business travel to the region and charges for current services. This is further discussed in the analysis that follows. Other General Fund revenue sources also showed mixed results. Licenses and permits, contribution in lieu of taxes were up compared to the prior fiscal year, while documentary transfer taxes and intergovernmental revenues were down. Lastly, in fiscal year 2007-08 the City continued to shift approximately \$4.2 million in General Fund property tax revenue to the State's Educational Revenue Augmentation Fund for public schools. This was an increase of over \$300 thousand in General Fund contributions to ERAF.

Additional financial highlights of fiscal year 2007-08 include (see Table 2):

#### *Citywide:*

- The City's total net assets (assets exceeding liabilities) were \$1,556 million in fiscal year 2007-08, a \$5 million decrease from the prior year. The increase of \$20 million in the Governmental Funds is due to increases in the General Fund and Redevelopment Agency (RDA) from property, transient occupancy tax (TOT) and other revenue streams. Decrease of \$25 million in the Business-type activities is for the draw down of Electric Reserves for operations and the increased price of hydroelectric power and natural gas.

- Total City revenues, including program and general revenues, were \$699 million, a decrease of \$30 million from the prior year, while total expenses were \$704 million, an increase of \$17 million.
- Governmental net assets were \$725 million, an increase of \$20 million from the prior year. Net assets in Business-type activities were \$831 million, a decrease of \$25 million from the prior year.
- Governmental program revenues were \$44 million, an increase of \$12 million from the prior year.
- Governmental program expenses were \$172 million in fiscal year 2007-08, a \$12 million increase from the prior year.
- Program revenues from Business-type activities were \$489 million in fiscal year 2007-08, down \$41 million from the prior year, due primarily to the reduction in sales of Electric Power and a loss in Joint Ventures share of equity.
- Expenses of Business-type activities were \$532 million in fiscal year 2007-08, an increase of \$5 million from the prior year, due primarily to increased cost of operations.

*Fund level:*

- General Fund direct revenues of \$135 million represented an increase of \$1 million from prior year amounts. This slight increase represents the effect of the slowdown in the local economy.
- General Fund expenditures of \$133 million were \$7 million more than the prior year due primarily to the increases of salaries and benefits reflecting recent union negotiations.
- The General Fund balance of \$76 million as of June 30, 2008 is \$1 million less than the prior fiscal year.
- See additional analysis in the "Financial Activities of the City As a Whole" section below.

## **OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This Comprehensive Annual Financial Report is presented in three parts:

- 1) Introductory Section, which includes the Transmittal Letter and general information,
- 2) The Financial Section, which includes the auditor's opinion, the management discussion and analysis, the Basic (City-wide) and the Fund Financial Statements, along with the notes to these financial statements, the required Supplementary Information, and the Combining Statements for Non-major Governmental Funds and Fiduciary Funds.
- 3) Statistical Information.

### **The Basic Financial Statements**

The Basic Financial Statements are comprised of the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and financial position—for the City as a whole, and fund by fund.

The City-wide Financial Statements provide a view of the City's activities as a whole. They are comprised of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets is a citywide "Balance Sheet" and provides information about the financial position of the City as a whole, including all its capital assets and long-term

liabilities on the full accrual basis, similar to that used by private corporations. The Statement of Activities is a citywide "Income Statement" and provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues and/or expenses of each City program. The Statement of Activities explains in detail the changes in Net Assets for the year.

The City-wide Financial Statements group all the City's activities into government-type activities and business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into governmental activities and business-type activities to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on each of the City's funds. The Fund Financial Statements are further grouped into Governmental, Enterprise and Internal Service groupings. The Governmental Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts. The Proprietary Fund Financial Statements measure current revenues and expenditures, as well as including capital assets, long-term debt and other long-term amounts.

Major Funds account for the specific financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The Fiduciary Fund statements provide financial information about the activities of the funds for which the City acts solely as agent.

Together, all these statements are now called the Basic Financial Statements; formerly they were called the General Purpose Financial Statements.

#### *The Citywide Financial Statements*

The Statement of Net Assets and the Statement of Activities present information about the following:

- **Governmental Activities**—All of the City's basic services are considered to be governmental activities. These services are shown as Functions or Programs on the Statement of Activities. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.

The City's governmental activities also include the activities of two separate legal entities, the Redevelopment Agency of the City of Santa Clara and the City of Santa Clara Public Facilities Financing Corporation, because the City is financially accountable for these entities.

- **Business-Type Activities**—All of the City's enterprise activities, including the electric utility, water utility, sewer utility, water recycling, solid waste, cemetery, Sports and Open Space Authority, Santa Clara Golf & Tennis Club and Santa Clara Convention Center are considered Business-Type Activities. Unlike governmental services, these services are supported by fees paid by users based on the amount of the service they use.

Citywide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

#### *Fund Financial Statements*

Fund Financial Statements include Governmental, Enterprise and Internal Service Funds as discussed below.

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. Each Major Fund is presented individually, with all Non-Major Funds summarized and presented only in a single column. The Non-Major Fund Statements are presented towards the end of this report.

Major Funds present the primary activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

There are two Major Governmental Funds presented in the fund financial statements, the General Fund and the Redevelopment Agency. There are four Major Proprietary Funds, the Electric Utility Fund, the Water Utility Fund, the Sewer Utility Fund, and the Water Recycling Utility Fund.

Because the focus of individual governmental funds is narrower than that of the governmental activities in the citywide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the citywide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Comparisons of Budget and Actual financial information are presented only for the General Fund (pp 114-116) and other Non-Major Funds that are Special Revenue Funds (p 128).

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

The Major Proprietary Fund Financial Statements, which include the Enterprise and Internal Service Funds, are prepared on the full accrual basis, as in the past, and include all their assets and liabilities, current and long-term.

Four of the City's Enterprise Funds are considered Major Funds and are presented individually in the Major Proprietary Fund financial statements, providing additional information for the City's business-type activities. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses Internal Service Funds to account for the acquisition and maintenance of its fleet of vehicles, for its management of non-dispatch communications systems and for its self-insurance. The activities of the City's Internal Service Funds are reported in the Proprietary Fund financial statements. Since the City's Internal Service Funds provide goods and services only to the City's governmental and business-type activities, Internal Service

Funds may not be Major Funds because their revenues are derived from other City Funds. These revenues are eliminated in the Citywide financial statements and any related profits or losses are returned to the Activities which created them, along with any residual net assets of the Internal Service Funds.

#### *Fiduciary Statements*

The City is the trustee or agent for certain employee benefit funds, assessment districts and other entities. The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations. The only type of Fiduciary Funds the City has are the Agency funds: Employee Benefit and Liability Clearing, Special Assessments and, finally, Deposits.

## FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

### Citywide Financial Statements

This analysis focuses on the net assets of the City's Governmental Activities and Business-Type entities (Table 1), changes in net assets for the City's Governmental Activities and Business-Type entities (Table 2), and results of Governmental and Business Activities (Table 3 and Table 4 respectively). Results are presented in the Statement of Net Assets (the Citywide balance sheet) and in the Statement of Activities (the Citywide income statement).

**Table 1**  
**Governmental And Business-Type Net Assets**  
**(in Millions)**

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Cash and investments	\$ 317	\$ 331	\$ 387	\$ 449	\$ 704	\$ 780
Other assets	101	88	184	186	285	274
Capital assets	552	552	547	538	1,099	1,090
<b>Total Assets</b>	<b>970</b>	<b>971</b>	<b>1,118</b>	<b>1,173</b>	<b>2,088</b>	<b>2,144</b>
Long-term debt outstanding	191	221	223	253	414	474
Other liabilities	54	45	64	64	118	109
<b>Total Liabilities</b>	<b>245</b>	<b>266</b>	<b>287</b>	<b>317</b>	<b>532</b>	<b>583</b>
Net assets: (1)						
Invested in capital assets, net of debt	458	459	334	313	792	772
Restricted	205	180	13	1	218	181
Unrestricted	62	66	484	542	546	608
<b>Total Net Assets</b>	<b>\$725</b>	<b>\$705</b>	<b>\$831</b>	<b>\$856</b>	<b>\$1,556</b>	<b>\$1,561</b>

(1) Prior Year reclassified between Restricted and Unrestricted to conform to current year presentation without any change to total net assets

### City Governmental Activities

The City's net assets from Governmental Activities increased to \$725 million in fiscal year 2007-08 from \$705 million in fiscal year 2006-07. This increase is the Change in Net Assets reflected in the Statement of Net Assets as show in Table 1, and is explained below:

- Cash and Investments decreased \$14 million due primarily to the retirement of bonds mentioned below offset by the reduced operational cost for Redevelopment and Other Governmental Funds.

- Long-term debt outstanding decreased \$30 million primarily due to the retirement of \$20 million 1987 Insurance Funding bonds and the retirement of other long term debt.
- Capital assets net of depreciation remained unchanged from the prior fiscal year. Capital Assets are discussed in more detail in the Capital Assets section on page 22.
- Net assets invested in capital assets net of related debt were \$458 million in fiscal year 2007-08, a decrease of \$1 million compared to the prior year. This was due to a \$1 million decrease of related debt liabilities.
- Restricted net assets are the portion of net assets which are legally restricted by grantors, debt covenants, contract or law. As shown in Table 1, on June 30, 2008, restricted net assets totaled \$205 million. This is comprised of \$22 million restricted to the acquisition of capital assets, \$24 million for payment of debt service, \$110 million that may only be used for redevelopment activities (affordable housing and other redevelopment projects) and \$34 million restricted for contractual obligations and \$15 million for other purposes. In fiscal year 2007-08, restricted net assets increased by \$25 million compared to the prior year due primarily to the increased contractual obligations.
- Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations or for other purposes without constraints established by debt covenants or other legal requirements. Unrestricted net assets amounted to \$62 million on June 30, 2008. This is a decrease of \$4 million from the prior year.

### **City Business Type Activities**

Table 1 above also shows net assets of the City's business-type activities. In fiscal year 2007-08 net assets of the City's business-type activities decrease \$25 million as explained below:

- Cash and Investments of \$387 million declined \$62 million from the prior fiscal year. This was due to the early redemption of Electric Bonds and increased cost of operations. Other assets of \$184 decreased by \$2 million from fiscal 2006-07 due to decreased equity in joint ventures. Capital assets of \$547 million increased \$9 million primarily to the purchase of property for a new substation and the expansion of the Ballroom at the Santa Clara Convention Center.
- Long-term debt outstanding decreased \$30 million due to the early redemption of bonds. The early redemption of bonds is discussed in The Analysis of Enterprise Funds on page 19.
- Net assets invested in capital assets net of related debt were \$334 million in fiscal year 2007-08. An increase of \$21 million from the prior fiscal year. This was due to \$9 million capital assets additions and an increase of related debt liabilities due to write off of bond issuance cost.
- Unrestricted net assets of \$484 million were \$58 million lower than last year's balance of \$542 million due to increased Restricted Net Assets for Contractors obligations

Fiscal Year 2007-08 Governmental Activities Statement of Activities presents program expenses, program revenues and general revenues in detail. All elements in the Changes in Governmental Net Assets are summarized in Table 2 on the next page.

**Table 2**  
**Governmental and Business-Type Changes in Net Assets**  
**(in Millions)**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Changes for Services	\$ 25	\$ 22	\$ 488	\$ 505	\$ 513	\$ 527
Operating grants and contributions	6	5			6	5
Capital grants and contributions	13	5	1	25	14	30
General revenues:						
Taxes:						
Sales	40	43			40	43
Ad valorem property	55	50			55	50
Transient occupancy	11	11			11	11
Other	5	5			5	5
Motor Vehicle in Lieu	1	1			1	1
Contribution in lieu of taxes	15	15			15	15
Investment Earnings	14	14	17	19	31	33
Net (decrease) in fair value of investments	-	1	1	3	1	4
Equity in income (losses) of joint ventures	1	-	-	-	1	-
Rents and royalties	-	-	3	2	3	2
Gain (loss) on Retirement of assets	-	-	-	-	-	-
Other	3	3			3	3
Total revenues	<u>\$ 189</u>	<u>\$ 175</u>	<u>\$ 510</u>	<u>\$ 554</u>	<u>\$ 699</u>	<u>\$ 729</u>
Expenses:						
General Administration	\$ 16	\$ 10			\$ 16	\$ 10
City Clerk	1	1			1	1
City Attorney	1	1			1	1
Human Resources	2	2			2	2
Finance	8	6			8	6
Public Works	28	29			28	29
Parks and Recreation	14	13			14	13
Public Safety:						
Police	43	41			43	41
Fire	34	32			34	32
Planning and Inspection	5	5			5	5
Library	8	8			8	8
Interest on long term debt	12	12			12	12
Utilities						
Electric-						
Retail			294	270	294	270
Wholesale			178	197	178	197
Water			22	21	22	21
Sewer			12	12	12	12
Water Recycling			1	2	1	2
Solid Waste			16	15	16	15
Cemetery			1	1	1	1
Sports and Open Space Authority			-	-	-	-
Santa Clara Golf and Tennis Club			2	3	2	3
Santa Clara Convention Center			6	6	6	6
Total expenses	<u>\$ 172</u>	<u>\$ 160</u>	<u>\$ 532</u>	<u>\$ 527</u>	<u>\$ 704</u>	<u>\$ 687</u>
Increase (decrease) in net assets before transfers	17	15	(22)	27	(5)	42
Transfers in (out)	3	3	(3)	(3)	-	-
Increase (decrease) in net assets	20	18	(25)	24	(5)	42
Net assets - 7/1	705	687	856	832	1,561	1,519
Net assets - 6/30	<u>\$ 725</u>	<u>\$ 705</u>	<u>\$ 831</u>	<u>\$ 856</u>	<u>\$ 1,556</u>	<u>\$ 1,561</u>

**Summary points from Table 2 are as follows:**

- In fiscal year 2007-08, Governmental Activities generated \$189 million in revenues, compared to the prior year's \$175 million, an increase of \$14 million. This was primarily due to increases in key revenue categories such as taxes and program revenues.
- Governmental Activities expenditures were \$172 million, a \$12 million increase from the prior year.
  - General Administration department expenses were \$16 million, an increase of \$6 million from the prior year. This was primarily due to the increase in capital assets for the Santa Clara Convention Center Ballroom expansion.
  - Finance department expenses were \$8 million, an increase of \$2 million from the prior fiscal year. This was due in part to increased salary and benefits, and resulting from moving the Purchasing Division into Finance from Public Works/Engineering. Additionally, there was a \$.5 million increase in materials due to cost associated with a software upgrade for customer service.
  - Public Works department expenses were \$28 million, a \$1 million decrease from fiscal year 2007-08 due mainly to decreased expenses for mandated programs and various other materials and supplies.
  - Parks and recreation department expenses were \$14 million dollars, an increase of \$1 million from the prior fiscal year. This increase was due to additional cost associated with the completion of the new Youth Soccer and Training Center.
  - Police department expenses were \$43 million, an increase of \$2 million over the prior year. This was due to increased salaries and benefits.
  - Fire Department expenses were \$34 million, an increase of \$2 million over the prior year. This was due to increased salaries and benefits.
- As a result of increased revenues, the Governmental Activities added \$20 million in net assets including transfers. Net assets increased to \$725 million from the prior year's figure of \$705 million.
- In fiscal year 2007-08, Business-type Activities generated \$510 million in revenue compared to the prior year's \$554 million, a decrease of \$44 million. Charges for Services decreased \$17 million. Decreased sales of \$32 million for Wholesale Power were offset by the \$11 million increase in Retail Power sales. Additional increases in the Water and Sewer Proprieties were due to increased rate fees.
- Business-type Activities expenses increased from \$527 million in 2006-07 to \$532 million in 2007-08, primarily due to increased Retail power purchases.
- As a result of decreased revenues and increased expenses, the City's Business-type Activities net assets including transfers were reduced \$25 million.

Table 2 shows that total governmental revenues excluding transfers were up \$14 million in fiscal year 2007-08. General revenues increased by \$2 million while program revenues increased by \$12 million. The analysis of Business-type activities summarized in Table 2 is presented on pages 13 and 14.

As the Sources of Revenue Chart 1 shows, of the total revenues from Governmental Activities including transfers (\$189 million in fiscal year 2007-08), \$40 million, or 21% of the City's fiscal

year 2007-08 governmental revenues was from sales tax, \$55 million, or 29% from ad valorem property taxes, \$15 million or 8% from contribution in lieu of taxes, \$11 million or 6% from TOT, and \$14 million or 8% from Leases (included in Program Revenues). Property tax revenue increases can be attributed to the continued increase in residential property valuations and the end of declines in valuations of the City's commercial and industrial sectors.

**Chart 1**  
**Governmental Activities**

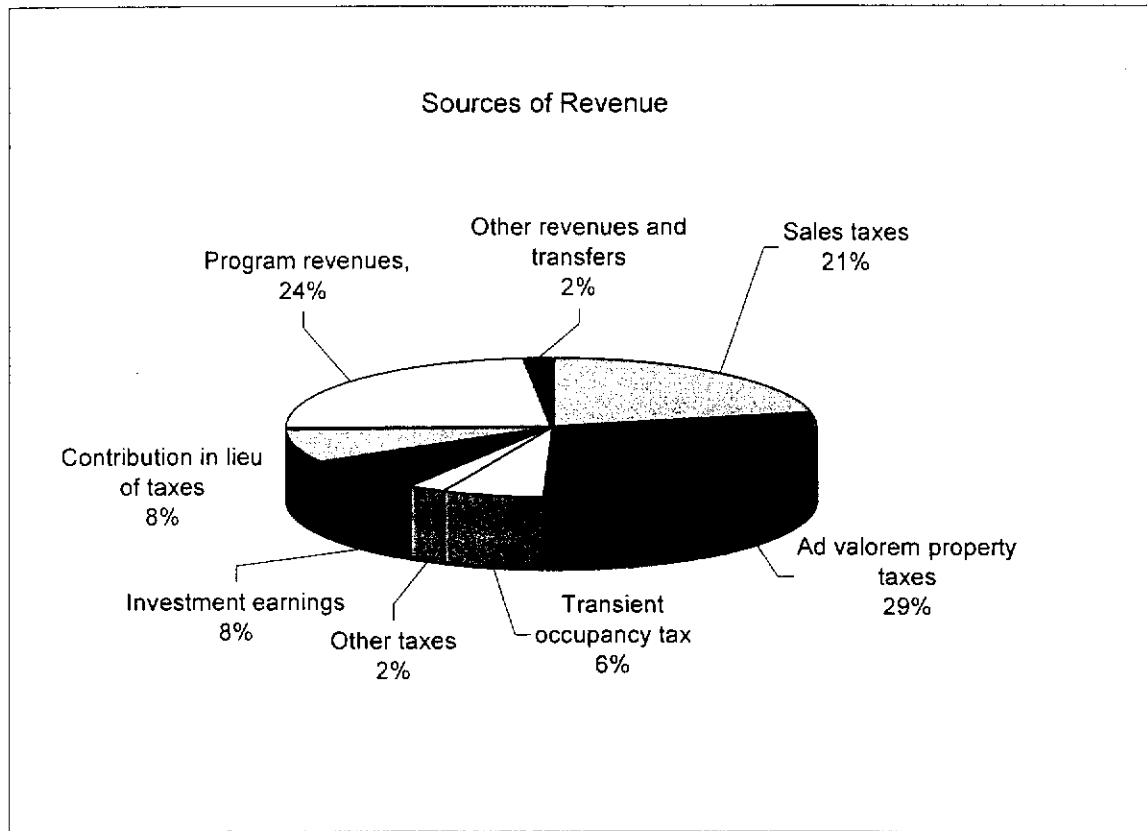


Table 3, on the next page, presents the total cost and net cost of each of the City's largest programs. Net cost is defined as total program cost less the revenues generated by those specific activities. It is common to see Governmental Activities as net cost generators, wherein costs of governmental activities are greater than the revenues they generate.

**Table 3**  
**Governmental Activities**  
**(in Millions)**

	Total Cost Of Services		Net Cost Of Services	
	2008	2007	2008	2007
General Administration	\$16	\$10	\$5	\$0
City Clerk	1	1	1	1
City Attorney	1	1	1	1
Human Resources	2	2	2	2
Finance	8	6	7	5
Public Works	28	29	10	23
Parks and Recreation	14	13	11	9
Public Safety:				
Police	43	41	41	39
Fire	34	32	31	30
Planning & Inspection	5	5	(2)	(1)
Library	8	8	8	7
Interest on long term debt	12	12	12	12
Totals	<u>\$172</u>	<u>\$160</u>	<u>\$127</u>	<u>\$128</u>

Total costs of services increased \$12 million; net costs increased \$1 million in fiscal year 2007-08, due primarily to increased net cost for General Administration offset by decreased Public Works net cost. General Administration net cost increased was due to increased fixed assets purchases. Public Works net cost of services decreased \$13 million due to increased revenue for Capital Grants and Contributions offset by higher operational cost.

#### **City Business Type Activities**

Table 2 above also presents Changes in Net Assets of Business-Type Activities. Total revenues decreased \$44 million in fiscal year 2007-08. In fiscal year 2007-08, Charges for services were \$488 million, a decrease of \$17 million compared to the prior year mainly due to a reduction in sales of Electric Wholesale Power. Additionally, Capital Grants and Contributions decreased by \$24 million due to loss in Joint Ventures share of equity. A \$4 million decrease in investments was offset by an increase of \$1 million in rents and royalties.

Total expenses of Business-type activities increased \$5 million mainly due to increased cost to purchase Electric and Wholesale Power.

- In fiscal year 2007-08 retail expenses of the Electric Utility were \$294 million, an increase of \$24 million over the prior year, due to increased costs of purchased power. However this was offset by a \$19 million dollar reduction in Wholesale power expense.
- Water expenses increased slightly due to the increase cost of wholesale water.

- A slight increase for material in Solid Waste was offset by lower cost of operations in Water Recycling and Santa Clara Golf and Tennis Club.

Table 4, below, provides the total costs and net costs of each of the City's enterprise funds. Net cost is defined as total program cost less the revenues generated by each enterprise fund. In the case of enterprise funds, one should expect revenues to exceed costs, and these funds to be net generators of funds.

- In fiscal year 2007-08, retail net costs of the Electric Utility were \$45 million, an increase of \$27 million over the prior year. This increase was due to the loss in Equity shares of Joint Ventures. With regard to wholesale Net cost of Services, the utility generated \$13 million more in revenues for the fiscal year 2007-08 than in 2006-07. This can also be seen in the income statement included in the section titled Major Proprietary Funds.
- Sewer net expenses and revenues increased from a net cost of (\$11) million in 2006-07 to \$4 million net cost in 2007-08, due mostly to the rate increases in the utility's structure, as well as to the loss in equity position in the San Jose/Santa Clara Water Pollution Control Plant.
- Santa Clara Convention Center net cost increased due to Developer Contributions.

**Table 4**  
**Business-Type Activities**  
**(in Millions)**

	Total Cost Of Services		Net Cost Of Services	
	2008	2007	2008	2007
Utilities:				
Electric -				
Retail	\$294	\$270	\$45	\$18
Wholesale	178	197	6	(7)
Water	22	21	(1)	-
Sewer	12	12	4	(11)
Water Recycling	1	2	(2)	1
Solid Waste	16	15	-	-
Cemetery	1	1	-	-
Sports and Open Space Authority	-	-	(2)	(1)
Santa Clara Golf and Tennis Club	2	3	(1)	(1)
Santa Clara Convention Center	6	6	(6)	(1)
Totals	<u>\$532</u>	<u>\$527</u>	<u>\$43</u>	<u>(\$2)</u>

## **The City's Fund Financial Statements**

Turning attention from the City-wide (GASB 34) statements to the fund-specific statements, the analysis can be subdivided into the Governmental Fund (pages 32-34) and Enterprise Funds (pages 38-43).

### **Governmental Funds**

As of June 30, 2008, the City's governmental funds reported combined fund balances of \$314 million, which is an increase of \$4 million compared to last year. The decrease of \$1 million in the General Fund balance resulted mostly from excess revenues over expense. The Redevelopment Agency Fund's balance remained relatively unchanged. Other governmental funds fund balances increased by \$5 million in fiscal year 2007-08.

Governmental fund revenues increased to \$198 million this year from the prior year's total of \$193 million. Of the total \$5 million increase, the General Fund increased \$1 million due to reasons cited above. RDA increased \$3 million due primarily to an increase in property valuations.

Governmental fund expenditures were \$197 million in fiscal year 2007-08, an increase of \$2 million. Of this amount, \$133 million was expended by the General Fund, \$40 million by the Redevelopment Agency Fund, and \$24 million by other governmental funds.

### **Enterprise Funds**

Enterprise Fund net assets totaled \$831 million at the end of the fiscal year 2007-08, a decrease of \$25 million over the \$856 million reported in the prior fiscal year. Enterprise operating revenues were \$304 million this year, up \$15 million from last year's revenues of \$289 million, due mostly to increased rates across all nine enterprise funds. Enterprise Fund operating expenses were \$337 million this year, up \$25 million from the prior year's \$312 million, due mostly to increases evenly across salaries, materials, amortization and depreciation.

Non-operating revenues were \$206 million, down \$57 million from the prior year due mostly to a decline in wholesale power sales. Non-operating expenses were \$204 million, down \$11 million from the prior year due mostly to a decline in wholesale power purchases.

## **Analysis of Major Governmental Funds**

### **General Fund**

#### **Revenues**

General Fund direct revenues of \$135 million increased \$1 million, which represented a slight increase over the prior fiscal year, principally due to the reasons set forth below.

#### **Sales Tax**

Sales tax is the largest revenue source for the City's General Fund and accounts for approximately 30% of direct General Fund revenues. Sales tax revenue for fiscal year 2007-08 was \$40 million, a decrease of \$3 million, or 6.9% over the \$43 million in fiscal year 2006-07. This fiscal year's downturn in sales tax revenues is a direct result of the slowdown in the local economy which resulted in decreases in retail and businesses to business sales. This \$40

million figure compares to the maximum level of \$51 million reached in 2001-02 and the recessionary low of \$34 million in 2003-04. Specifically, the areas showing the greatest weakness are: general retail sales (down 5.6%), especially furniture and appliances (down 9.1%) and department stores (down 8.6 %); and to a lesser extent business to business sales (down 2.3%), especially electronic equipment (down 8.6%) and transportation sales (down 2.2 %), especially auto sales-used (down 25.1%) and auto parts repair (down 11.7%).

#### *Property Tax*

Property tax revenue for fiscal year 2007-08 was \$28 million compared to \$26 million in fiscal year 2006-07, an increase of approximately \$2 million or 7.7%. This increase is due to the increases in assessed valuation from 2005-06 which are included on the tax rolls in 2007-08. Lastly, the City continues to receive property tax payments in lieu of some of its Vehicle-in-Lieu Fee revenues as per the State budget resolution.

#### *Transient Occupancy Taxes*

Revenue from transient occupancy taxes was \$11.2 million in fiscal year 2007-08 compared with \$10.5 million in fiscal year 2006-07, an increase of 6.7%. This was due to continued improvement in the business travel market resulting in higher occupancy rates and increased room rates at hotels/motels.

#### *Licenses, Permits and Fines and Penalties*

Revenues for licenses, permits, fines and penalties were \$5 million in fiscal year 2007-08 compared with \$5 million in fiscal year 2006-07. These figures reflect the current economic conditions in construction activity linked to building and related permits.

#### *Charges for Services*

Charges for Services were \$21 million in fiscal year 2007-08 compared with \$19 million in fiscal year 2006-07, an increase of 10.6%. The primary source of this revenue growth came from Interdepartmental Service Charges and Plan Check Fees. A major reason for an increase in Plan Check Fees was a large influx of plans submitted by developers before changes in planning code became effective at the end of calendar year 2008.

#### *Contribution In-lieu of Taxes (CLT)*

Contribution In-lieu of taxes was approximately \$15 million in fiscal year 2007-08 compared with \$15 million in fiscal year 2006-07. Contribution In-lieu of taxes was essentially flat because of decreased power demand for the Electric utility which was partially offset by a 3% increase in electric rates effective January 2008. Rate increases of 10% in the Sewer Enterprise and 9% in the Water Enterprise also took effect in 2007-08 and contributed to fiscal year 2007-08 results.

#### *Interest and Rents*

Interest and rent revenues were \$9 million in fiscal year 2007-08 compared to \$9 million in fiscal year 2006-07 or essentially flat. Interest income decreases were offset by increases in income from rents and leases. Interest income was down due to a less favorable interest rate environment in fiscal year 2007-08 and declines in portfolio balances.

#### *Redevelopment Agency Fund*

The Agency's revenues were \$49 million in fiscal year 2007-08, an increase of over \$3 million over the previous fiscal year. Property tax increment revenues were \$27 million in fiscal year 2007-08, an increase of \$2.7 million over the previous fiscal year due to an increase in property valuation in the Agency's project areas. Revenue from use of assets, primarily lease revenues, were \$20 million in fiscal year 2007-08, up \$665 thousand compared to last year. Adjustment in

the fair market value of pooled cash and investments decreased from \$548 thousand in fiscal year 2006-07 to \$151 thousand in fiscal year 2007-08.

### **Expenditures**

General Fund direct expenditures in fiscal year 2007-08 were \$133 million compared with \$126 million in fiscal year 2006-07, an increase of \$7 million, or 5.6%. The major reasons for increases in expenditures are:

#### **Salary and Benefits**

Salary and benefits expenditures were \$105 million in fiscal year 2007-08 compared with \$102 million in fiscal year 2006-07, an increase of \$3 million or 3%. The increase is primarily due to the increased cost of salaries and retirement benefits and was partially offset by the City's continued hiring freeze. The total full-time benefited employee count in General Fund remains at a constant 779.4 due to the continued hiring freeze.

#### **All Other Operating Expenditures**

Other operating expenditures, including materials, services, and supplies, internal service fund charges and minor capital outlays, were \$28 million in fiscal year 2007-08 compared with \$25 million in the prior fiscal year, an increase of \$3 million or 12%. Most of the increase was due to an increase in materials, services and supplies and internal services fund charges.

### **Transfers**

Transfers out of the General Fund increased to \$17 million in fiscal year 2007-08 from \$12 million, compared to the prior fiscal year, principally due to more transfers to Capital Project Fund. Debt service at \$6 million remains the largest single transfer out.

### **Fund Balance**

As of June 30, 2008, total General Fund balance was \$76.0 million, down \$1.1 million from fiscal year 2006-07. The Table 5A shows the breakdown of various components from the prior fiscal year.

**Table 5A  
General Fund Balance  
(in Millions)**

	<u>2008</u>	<u>2007</u>	<u>Net Change</u>
Encumbrance, advances to other funds, and inventory	\$ 20.9	\$ 22.4	\$ (1.5)
Designated for working capital	21.9	18.1	3.8
Designated for capital projects	10.0	14.1	(4.1)
Designated for land sale proceeds	17.0	16.9	0.1
Designated for building inspections	4.8	5.6	(0.8)
Undesignated	<u>1.4</u>	<u>-</u>	<u>1.4</u>
Total General Fund Fund Balance	<u>\$ 76.0</u>	<u>\$ 77.1</u>	<u>\$ (1.1)</u>

### **General Fund Budget Comparison**

Included in the Required Supplementary Information is the General Fund Schedule of Revenues and Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Legal Basis) for the year ended June 30, 2008. During the year, Council took action to amend the adopted General Fund budget.

The following is a summary of the impact of these actions:

**Table 5B**  
**General Fund Budget for the Year Ended June 30, 2008**  
**(in Millions)**

	<u>Original Budgeted Amount</u>	<u>Final Budgeted Amount</u>	<u>Net Change</u>
Revenues	\$ 131.7	\$ 132.7	\$ 1.0
Expenditures	136.0	136.7	0.7
Other Financing Sources (Uses)	(1.5)	(1.9)	(0.4)

The increase in budgeted revenues was due to unanticipated receipts that resulted in higher expenditure. The increase in budgeted expenditures was due to appropriation of unanticipated revenues such as grants and to budget amendments for special programs and events. The increase in budgeted other financing Uses primarily due to a transfer out to the Workers' Compensation Fund from the Working Capital (Emergency) Reserve balances.

### **Redevelopment Agency Fund**

The purpose of the Redevelopment Agency (Agency) is to eliminate blight in its project areas, both of which are in the City, while ensuring an adequate stock of low and moderate-income housing. The Agency's power of eminent domain in Bayshore North and University project areas expired as of December 31, 1994. The Agency's power to issue debt payable out of the incremental property taxes expected to be realized as a result of its redevelopment activities expired as of January 1, 2004. The agency may enter into development agreements with developers and others to further its purpose. The Agency's operations are funded primarily by property tax increments generated by increased assessments in the redevelopment areas and by lease payments from current long-term land leases.

The Redevelopment Agency Fund accounts for property tax increments and other Redevelopment Agency revenues used to construct or acquire capital assets in the Redevelopment Agency's project areas, as well as debt service expenditures on the Agency's debt.

The Agency's revenues were \$49 million in fiscal year 2007-08, an increase of over \$3 million over the previous fiscal year. Property tax increment revenues were \$27 million in fiscal year

2007-08, an increase of \$2.7 million over the previous fiscal year due to an increase in property valuation in the Agency's project areas. Revenue from use of assets, primarily lease revenues, were \$20 million in fiscal year 2007-08, up \$665 thousand compared to last year. The adjustment in the fair market value of pooled cash and investment decreased from \$548 thousand in fiscal year 2006-07 to \$151 thousand in fiscal year 2007-08.

Agency expenditures were \$40 million in fiscal year 2007-08, a decrease of \$3 million. This was due primarily to lower capital spending of \$2 million from the prior fiscal year and lower operational cost of \$1 million compared to fiscal year 2006-07.

The Agency's fiscal year end fund balance of \$169 million may be used only for redevelopment purposes; of this amount, \$82 million is reserved for encumbrances, debt service, housing and land held for development and \$87 million is designated for capital projects and supplemental housing.

#### **Other Governmental Funds**

These funds are not presented separately in the Basic Financial statements, but are individually presented as Supplemental Information.

#### **Analysis of Enterprise Funds**

##### **Electric Utility (Silicon Valley Power)**

Retail operating revenues were \$240 million in fiscal year 2007-08 compared with \$229 million in fiscal year 2006-07, an increase of approximately 4.8%. The main reason for the increase was the full year effect of a rate increase, discussed below, and higher power consumption by the industrial/commercial sector.

The City Council adopted a 3% rate increase effective January 2007 and a further 3% increase effective January 1, 2008. The primary reason for this increase is rise in cost and use of fuel for electric generation, combined with a significant reduction in energy available from Western Area Power Administration. Staff will continue to evaluate the utility's financial positions and will return to City Council in 2009 with an update.

Retail operating expenses were \$276 million in fiscal year 2007-08 compared with \$253 million in fiscal year 2006-07, an increase of \$23 million or 9.1%. The operating expenses were higher primarily due to increases purchased power costs.

Revenues of wholesale power operations decreased to \$172.4 million in fiscal year, down from \$204.7 million in fiscal year 2006-07. The cost of wholesale power purchases decreased as well from \$197 million in fiscal year 2006-07 to \$178 million in current fiscal year.

Interest revenues were reported at \$16 million in fiscal year 2007-08, a \$2 million decrease from fiscal year 2006-07 due to the current economic conditions. Interest expense declined slightly from \$12.0 million to \$11.7 million.

Other revenues increased from \$10.0 million in 2006-07 to \$10.4 million in 2007-08. Most of these revenues are the Public Benefit Program receipts (\$6.8 million) and developer contributions (\$2.1 million) for their share of improvements to the system.

In fiscal year 2007-08, due to the downgrades of bond insurers by rating agencies and impact of the subprime meltdown, the existing Electric Department bond issues are exposed to significantly higher variable interest costs of unknown duration. In order to eliminate higher interest cost in near future, the City redeemed \$20.4 million 1985ABC variable rate revenue bonds with cash from Cost Reduction Fund in April, 2008. In May 2008, to mitigate the high interest expenses on Electric Revenue Variable Rate Bond Series 2003B backed by XL Capital, the City refunded \$50 million 2003B with the Series 2008A variable rate bond backed by Bank of America Letter of Credit, which also enhance the bond's credit quality and marketability. In anticipation of refunding the Series 1998A bonds, the City authorized and executed an interest rate swap agreement with Bear Stearns Capital Market Inc. in September 2006. The swap agreement became effective May 29, 2008 and is intended to convert the variable interest payment on the Series 2008B bonds to a fixed interest rate equivalent to the 3.47% rate. The \$80,530,000 of 1998A was refunded with 2008B and the retaining of the swap allows the City to avoid a swap termination fee and captures the saving on the interest.

During the fiscal year 2007-08, the City of Santa Clara, Modesto Irrigation District (MID), and City of Redding have been carefully evaluating a relatively new power plant fuel financing option called a "gas prepay". The gas prepayment structure is estimated to create annual gas purchase cost savings in the range of \$2.3 million, or approximately 1% of Electric Department revenue.

The Electric Utility Fund had \$626 million in net assets at June 30, 2008, a decrease of \$32 million from the prior fiscal year. Of this amount, \$250 million was invested in capital assets, net of related debt, \$11 million was restricted for contractual obligations and \$365 million was unrestricted. The Electric Utility Fund is a participant in a number of joint ventures such as Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), M-S-R Public Power Agency (MSR), and Central California Power Agency No. 1 (CCPA).

#### **Water Utility**

Operating revenues were \$23 million in fiscal year 2007-08 compared with \$21 million in fiscal year 2006-07, an increase of 9.5%. A 9% water rate increase in fiscal year 2007-08 and an increase in customers' water usage contributed to higher revenues.

Operating expenses were \$22 million in fiscal year 2007-08 relatively unchanged from fiscal year 2006-07. The Water Utility Fund's net assets at June 30, 2008 were \$43 million, an increase of \$2 million over net assets from the prior fiscal year.

#### **Sewer Utility**

Operating revenues of the Sewer Utility increased to \$14 million in fiscal year 2007-08, up from \$13 million in fiscal year 2006-07, an increase of 7.7%. A 10% sewer rate increase approved for fiscal year 2007-08 and a minor increase in flow for commercial/industrial discharges accounted for higher operating revenues.

Operating expenses were \$12 million in fiscal year 2007-08 compared with \$12 million in fiscal year 2006-07. The investment in capital assets in fiscal year 2007-08 was \$10 million, net of depreciation unchanged from prior fiscal year.

The Sewer Fund, together with the City of San Jose, owns the San Jose/Santa Clara (SJSC) Water Pollution Control Plant (WPCP), which is administered by the City of San Jose. The Fund's ownership share is approximately 16.1% of the assets, capital and operating costs. In fiscal year 2007-08 the City of San Jose reported that the Fund's equity in the Plant went from \$10 million equity to a \$6 million dollar deficit. Most of the reason for this decrease is higher cost to cover additional regulatory requirements and less capital contribution compared to the prior fiscal year 2006-07.

A Sanitary Sewer System Capacity Assessment study was performed in 2007 for the city's sewer system to project wastewater flow, create a hydraulic model, and identify capacity deficiencies for future capacity requirements. The study determined that the existing system has insufficient capacity to handle future flow the 1992 General Plan Land Use, and recommended capacity improvement projects. The design of the first capacity improvement project, Walsh Avenue Sanitary Sewer Improvement project, will be completed by January 2009 and the construction is planned to start in May 2009. The preliminary engineering and design work on the second set of the sewer capacity improvement projects are planned to begin in winter 2008-09. The project will be funded by bond issuance of \$14 million in 2009 and \$7 million in 2010.

### **Water Recycling**

Operating revenues increased by from \$1.2 million in fiscal year 2006-07 to \$1.4 million in 2007-08. Operating expenses for fiscal year 2007-08 were \$1 million an increase of \$300 thousand from the prior fiscal year. Net assets as of June 30, 2008 were \$3 million an increase of \$1.7 million from fiscal year 2006-07. The main reason for this increase was a reimbursement of prior year's expenses for our joint project with the City of San Jose.

### **Solid Waste**

Operating revenues were \$16 million in fiscal year 2007-08 relatively unchanged from the prior fiscal year. Operating expenses were \$16 million in fiscal year 2007-08, an increase of \$1 million from the prior year. Net assets (deficit) at June 30, 2008 were (\$1.7) million.

### **Cemetery**

This Fund accounts for the Mission City Memorial Park's operations. Operating revenues were \$465 thousand in fiscal year 2007-08, reflecting a \$99 thousand decrease from prior fiscal year. Operating expenses were \$747 thousand in fiscal year 2007-08, an increase of \$26 thousand compared to fiscal year 2006-07. Net assets at June 30, 2008 were (\$509) thousand. This fund usually runs a deficit in its operation and capital activities, which is funded by an advance from the General Fund.

### **Sports and Open Space Authority**

This Fund accounts for the acquisition and preservation of open space within the City and the development of local sports activities. Operating revenues were \$1.6 million in fiscal year 2007-08, up slightly from the prior fiscal year. Net assets at June 30, 2008 were \$4 million.

### **Santa Clara Golf and Tennis Club**

This Fund accounts for the operations of the City's public golf course. Operating revenues were \$3 million in fiscal year 2007-08 unchanged from the prior fiscal year. Operating expenses were \$2.6 million, a slight increase from the prior fiscal year. Net assets at June 30, 2008 were \$5 million.

### **Santa Clara Convention Center**

This Fund accounts for the operations of the Santa Clara Convention Center. Operating revenues were \$4 million in fiscal year 2007-08 unchanged from fiscal year 2006-07. Operating expenses remained at \$6 million in fiscal year 2007-08 the same as fiscal year 2006-07. Net assets at June 30, 2008 were \$27 million, an increase of \$6 million from prior fiscal year 2006-07. The main reason for this increase was due to Developer Contributions for the purpose of the Ballroom Expansion at the Santa Clara Convention Center.

### **CAPITAL ASSETS**

At June 30, 2008 the City's capital assets, net of depreciation, stood at \$552 million in Governmental Activities, and \$547 million, net of depreciation, in Business-Type Assets, as shown in Table 6 below. They were invested in a broad range of categories, as shown in Table 6 on the next page:

**Table 6**  
**Capital Assets at Fiscal Year End June 30, 2008**  
**(in Millions)**

	<u>2008</u>	<u>2007</u>	<u>Net Change</u>
<b><i>Governmental Activities:</i></b>			
Land	\$ 114	\$ 112	\$ 2
Construction in Progress	5	12	(7)
Land Improvements	18	17	1
Buildings and Improvements	157	148	9
Machinery and Equipment	63	68	(5)
Infrastructure	418	401	17
Less accumulated depreciation	(223)	(206)	(17)
<b>Totals</b>	<b><u>\$ 552</u></b>	<b><u>\$ 552</u></b>	<b><u>\$ -</u></b>
 <b><i>Business-type Activities:</i></b>			
Land & Improvements	\$ 20	\$ 16	\$ 4
Construction in Progress	16	5	11
Buildings and Improvements	845	832	13
Machinery and Equipment	16	15	1
Less accumulated depreciation	(350)	(330)	(20)
<b>Totals</b>	<b><u>\$ 547</u></b>	<b><u>\$ 538</u></b>	<b><u>\$ 9</u></b>

The increase in the Governmental Funds asset base was due primarily to the completion of the Youth Soccer and Training Center and The Agnews Historic Park Museum. This can be seen in the decrease in Construction in Progress and the increase in Buildings and Improvements, as the work was completed and reclassified in the fixed asset base of the City. In addition, infrastructure improvements increased \$17 million, \$5 million in street improvements and \$3 million for the additional phases of the San Tomas Aquino/Saratoga Creek Trail, which were completed by the end of fiscal year 2007-08. An additional \$9 million increase was due to Developer Contributions for Infrastructure.

The increase in the Enterprise Funds Land and Improvements was primarily due to the purchase of Raymond Street property for the purpose of building a new substation. Increases in Buildings and Improvements include the maintenance of the Fiber Optic Network and other improvement necessary to meet the customers demand for electricity. Additionally, \$1.2 million was capitalized for the 5-year capital refurbishment program of the substations for the Electric Utility.

The Capital Improvement Project Budget for fiscal year 2008-09 and Five Year Financial Plan for fiscal year 2009-10 through fiscal year 2013-14 contain more detailed discussions of Capital Projects planned for the City of Santa Clara. See Note 10 for additional details on fiscal year 2007-08 capital assets.

## DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 11 to the financial statements. At June 30, the City's debt was comprised of the following:

**Table 7**  
**Outstanding Debt at Fiscal Year End June 30, 2008**  
**(in Millions)**

	Balance June 30, 2008	Balance June 30, 2007	Net Change
<b>Governmental Activity Debt:</b>			
Special Assessment Debt with City commitment	\$ 4	\$ 5	\$ (1)
Redevelopment Tax Allocation Bonds	131	136	(5)
Certificates of Participation 1997	12	13	(1)
Insurance Funding Bonds Series 1997	-	20	(20)
Certificates of Participation 2002A	23	23	-
Refunding Certificates of Participation, Series 2002B	21	24	(3)
<b>Business-type Debt:</b>			
Electric Utility Revenue Bonds, net of unamortized discount	223	253	(30)
State Water Resource Control Board Loan	nil	nil	nil
<b>Total Debt</b>	<u>\$ 414</u>	<u>\$ 474</u>	<u>\$ (60)</u>

## SPECIAL ASSESSMENT DISTRICT DEBT

Special assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2008, a total of \$4 million in special assessment district debt was outstanding, issued by three special assessment districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility, although the City does act as these Districts' agent in the collection and remittance of assessments.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the City of Santa Clara Finance Department, at 1500 Warburton Avenue, Santa Clara, CA California 95050, telephone (408) 615-2340.

## ***Basic Financial Statements***

CITY OF SANTA CLARA  
STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects, Debt Service and Permanent Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating interfund transactions and balances. The City's Business-Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net (expense) revenue of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-Type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

Both these Statements include the financial activities of the City and the Redevelopment Agency of the City of Santa Clara, the City of Santa Clara Sports and Open Space Authority, and the City of Santa Clara Public Facilities Financing Corporation, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for these Agency activities.

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**CITY OF SANTA CLARA**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and investments (Note 8):			
Pooled cash and investments	\$ 210,232,254	\$ 370,514,694	\$ 580,746,948
Investments with fiscal agent	2,466	1,188,419	1,190,885
Receivables (net of allowance for uncollectibles):			
Accounts	3,338,331	61,809,289	65,147,620
Interest	2,035,844	3,616,029	5,651,873
Intergovernmental	4,446,589	-	4,446,589
Internal balances (Note 9D)	(1,629,260)	1,629,260	-
Materials, supplies and prepaids	398,873	11,650,629	12,049,502
Land held for redevelopment (Note 2H)	7,103,770	-	7,103,770
<b>Total Current Assets</b>	<b>225,928,867</b>	<b>450,408,320</b>	<b>676,337,187</b>
<b>Noncurrent Assets</b>			
Cash designated for construction (Note 8)	87,025,917	2,320,643	89,346,560
Investment with fiscal agent (Note 8)	20,137,166	8,427,852	28,565,018
Deposits (Note 8)	-	4,441,776	4,441,776
Internal balances (Note 9D)	5,903,198	(5,903,198)	-
Long Term Special assessments	3,155,000	-	3,155,000
Long Term Loans, net of reserves (Note 2AA)	70,424,929	-	70,424,929
Capital assets (Note 10):			
Land and construction in progress	118,540,436	35,684,164	154,224,600
Capital assets being depreciated, net	433,752,072	511,813,098	945,565,170
Investment in joint ventures (Note 13)	5,624,624	107,912,270	113,536,894
Other	24,407	2,957,017	2,981,424
<b>Total Noncurrent Assets</b>	<b>744,587,749</b>	<b>667,653,622</b>	<b>1,412,241,371</b>
<b>Total Assets</b>	<b>970,516,616</b>	<b>1,118,061,942</b>	<b>2,088,578,558</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accrued liabilities	15,479,482	53,461,942	68,941,424
Interest payable	3,223,556	2,220,872	5,444,428
Accrued compensated absences (Note 2K)	1,563,905	390,299	1,954,204
Unearned revenue	9,661,300	597,674	10,258,974
Landfill closure liability (Note 12)	-	405,000	405,000
Long-term debt-Due within one year (Note 11)	10,000,000	3,615,329	13,615,329
<b>Total Current Liabilities</b>	<b>39,928,243</b>	<b>60,691,116</b>	<b>100,619,359</b>
<b>Noncurrent Liabilities</b>			
Long-term Portion Est. Claims	14,125,037		14,125,037
Accrued compensated absences (Note 2K)	10,326,601	2,577,174	12,903,775
Landfill closure liabilities (Note 12)	-	4,062,754	4,062,754
Long-term debt-Due in more than one year (Note 11)	180,990,000	219,527,437	400,517,437
<b>Total Noncurrent Liabilities</b>	<b>205,441,638</b>	<b>226,167,365</b>	<b>431,609,003</b>
<b>Total Liabilities</b>	<b>245,369,881</b>	<b>286,858,481</b>	<b>532,228,362</b>
<b>NET ASSETS (Note 19)</b>			
Invested in capital assets, net of related debt	457,789,200	334,006,096	791,795,296
Restricted for:			
Capital projects	22,278,365	-	22,278,365
Contractual Obligations	34,561,979	12,865,029	47,427,008
Debt service	23,713,581	-	23,713,581
Redevelopment activities	109,958,139	-	109,958,139
Permanent Funds and Other	15,151,162	-	15,151,162
<b>Total Restricted Net Assets</b>	<b>205,663,226</b>	<b>12,865,029</b>	<b>218,528,255</b>
Unrestricted Net Assets	61,694,309	484,332,336	546,026,645
<b>Total Net Assets</b>	<b>\$ 725,146,735</b>	<b>\$ 831,203,461</b>	<b>\$ 1,556,350,196</b>

See accompanying notes to basic financial statements.

**CITY OF SANTA CLARA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:					
General Administration	\$ 24,772,318	\$ (9,209,109)	\$ 9,847,798	\$ 118,849	\$ -
City Clerk	697,448	-	-	-	-
City Attorney	1,065,409	-	6,761	-	-
Human Resources	1,710,840	-	-	-	-
Finance	7,943,044	-	756,162	(6,000)	-
Public Works	28,394,233	-	2,019,069	2,863,059	13,284,973
Parks and Recreation	14,269,090	-	2,590,637	456,825	-
Public Safety:					
Police	42,869,708	-	1,691,410	535,871	-
Fire	33,855,434	-	2,138,806	432,111	-
Planning & Inspection	5,353,400	-	5,340,304	1,641,634	-
Library	8,415,555	-	221,309	442,957	-
Interest on long term debt	11,679,036	-	-	-	-
Total Governmental Activities	181,025,515	(9,209,109)	24,612,256	6,485,306	13,284,973
Business-type Activities:					
Utilities:					
Electric -					
Retail	287,798,323	5,820,624	250,564,888	-	(1,486,067)
Wholesale	177,972,817	-	172,404,300	-	-
Water	20,116,610	1,572,383	23,001,029	-	-
Sewer	11,707,259	830,422	15,060,794	-	(6,731,141)
Water Recycling	1,169,277	-	1,501,839	-	1,676,316
Solid Waste	14,749,772	939,724	16,184,142	-	-
Cemetery	692,649	43,011	464,817	-	-
Sports and Open Space Authority	36,209	2,945	1,605,079	-	-
Santa Clara Golf and Tennis Club	2,602,547	-	3,108,476	-	-
Santa Clara Convention Center	6,259,124	-	4,292,270	-	7,766,895
Total Business-type Activities	523,104,587	9,209,109	488,187,634	-	1,226,003
Total	\$ 704,130,102	\$ -	\$ 512,799,890	\$ 6,485,306	\$ 14,510,976
General Revenues:					
Taxes:					
Sales					
Ad valorem property					
Transient occupancy					
Other					
Intergovernmental, unrestricted:					
Motor vehicle in-lieu					
Contribution in lieu of taxes					
Investment earnings					
Net (decrease) in the fair value of investments					
Equity in income (losses) of joint ventures					
Rents and royalties					
Gain (loss) on retirement of assets					
Other					
Transfers (Note 9A)					
Total General Revenues and Transfers					
Change in Net Assets					
Net Assets - Beginning					
Net Assets - Ending					

See accompanying notes to basic financial statements.

**Net (Expense) Revenue and  
Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (5,596,562)	\$ -	\$ (5,596,562)
(697,448)	-	(697,448)
(1,058,648)	-	(1,058,648)
(1,710,840)	-	(1,710,840)
(7,192,882)	-	(7,192,882)
(10,227,132)	-	(10,227,132)
(11,221,628)	-	(11,221,628)
(40,642,427)	-	(40,642,427)
(31,284,517)	-	(31,284,517)
1,628,538	-	1,628,538
(7,751,289)	-	(7,751,289)
(11,679,036)	-	(11,679,036)
(127,433,871)	-	(127,433,871)
-	(44,540,126)	(44,540,126)
-	(5,568,517)	(5,568,517)
-	1,312,036	1,312,036
-	(4,208,028)	(4,208,028)
-	2,008,878	2,008,878
-	494,646	494,646
-	(270,843)	(270,843)
-	1,565,925	1,565,925
-	505,929	505,929
-	5,800,041	5,800,041
-	(42,900,059)	(42,900,059)
(127,433,871)	(42,900,059)	(170,333,930)
40,515,991	-	40,515,991
54,536,266	-	54,536,266
11,268,817	-	11,268,817
4,504,013	-	4,504,013
506,625	-	506,625
14,731,755	-	14,731,755
14,262,239	17,199,688	31,461,927
257,901	1,157,247	1,415,148
1,225,005	-	1,225,005
303,090	2,546,867	2,849,957
4,264	-	4,264
3,049,445	-	3,049,445
2,806,974	(2,806,974)	-
147,972,385	18,096,828	166,069,213
20,538,514	(24,803,231)	(4,264,717)
704,608,221	856,006,692	1,560,614,913
<u>\$ 725,146,735</u>	<u>\$ 831,203,461</u>	<u>\$ 1,556,350,196</u>

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CITY OF SANTA CLARA  
FUND FINANCIAL STATEMENTS

The funds described below were determined to be Major Funds by the City in fiscal year 2007-08. Individual non-major funds may be found in the Supplementary section.

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds, and the related expenditures.

REDEVELOPMENT AGENCY FUND

The Redevelopment Agency Fund accounts for the construction or acquisition of public improvements of the Agency; housing set aside funds received from Agency tax increment for the purpose of developing low to moderate income housing; and for monies for the payment of Agency long-term obligations which are financed by tax increment and lease revenues.

**CITY OF SANTA CLARA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
June 30, 2008**

	General	Redevelopment Agency	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments (Note 8):				
Pooled cash and investments	\$ 60,622,834	\$ 79,467,793	\$ 55,676,729	\$ 195,767,356
Investments with fiscal agent - current	-	1,762	704	2,466
Cash designated for construction	-	83,409,054	3,616,863	87,025,917
Receivables (net of allowance for uncollectibles):				
Accounts	2,887,638	-	98,680	2,986,318
Interest	1,268,896	644,000	122,948	2,035,844
Loans	809,191	54,800,354	18,396,503	74,006,048
Special assessments	-	-	3,155,000	3,155,000
Intergovernmental	960,712	99,642	3,386,235	4,446,589
Due from other funds (Note 9B)	1,664,319	-	14,072	1,678,391
Materials, supplies and prepaids	28,810	-	-	28,810
Land held for redevelopment (Note 2H)	-	7,103,770	-	7,103,770
Investments with fiscal agent - noncurrent (Note 8)	-	10,048,130	10,089,036	20,137,166
Advances to other funds (Note 9C)	14,350,523	-	-	14,350,523
Other	24,407	-	-	24,407
<b>Total Assets</b>	<b>\$ 82,617,330</b>	<b>\$ 235,574,505</b>	<b>\$ 94,556,770</b>	<b>\$ 412,748,605</b>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 6,291,696	\$ 2,399,071	\$ 1,784,090	\$ 10,474,857
Interest payable	-	809,191	-	809,191
Accrued compensated absences (Note 2K)	141,120	-	-	141,120
Due to other funds (Note 9B)	-	-	171,727	171,727
Deferred revenue	171,727	55,228,605	23,776,042	79,176,374
Advances from other funds (Note 9C)	-	8,447,325	-	8,447,325
<b>Total Liabilities</b>	<b>6,604,543</b>	<b>66,884,192</b>	<b>25,731,859</b>	<b>99,220,594</b>
<b>FUND BALANCES</b>				
Reserved for encumbrances	1,159,711	25,478,752	2,298,892	28,937,355
Reserved for debt service	-	12,485,615	11,227,966	23,713,581
Reserved for low and moderate income housing	-	36,219,342	-	36,219,342
Reserved for special programs	1,455,642	-	13,695,520	15,151,162
Reserved for inventory, petty cash and receivables	3,891,644	-	-	3,891,644
Reserved for advances	14,350,523	-	-	14,350,523
Reserved for land held for redevelopment	-	7,103,770	-	7,103,770
Unreserved	-	-	-	-
Designated for working capital	21,884,657	-	-	21,884,657
Designated for capital projects				
Reported in:				
General fund	10,008,709	-	-	10,008,709
Special revenue funds	-	-	408,852	408,852
Capital projects funds	-	74,208,058	41,193,681	115,401,739
Designated for investment of land sale proceeds	16,956,005	-	-	16,956,005
Designated for supplemental housing	-	13,194,776	-	13,194,776
Designated for building inspection and other	4,843,573	-	-	4,843,573
Undesignated:				
Reported in:				
General fund	1,462,323	-	-	1,462,323
<b>Total Fund Balances</b>	<b>76,012,787</b>	<b>168,690,313</b>	<b>68,824,911</b>	<b>313,528,011</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 82,617,330</b>	<b>\$ 235,574,505</b>	<b>\$ 94,556,770</b>	<b>\$ 412,748,605</b>

See accompanying notes to basic financial statements.

**CITY OF SANTA CLARA**  
**Reconciliation of Fund Balances to Governmental Activities Net Assets**  
**June 30, 2008**

Governmental fund balance from prior page \$ 313,528,011

Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

**CURRENT LIABILITIES**

The assets and liabilities below are due and payable in less than one year and more than 90 days and therefore are not reported in the Funds:

Current portion of compensated absences (1,404,080)

**CAPITAL ASSETS**

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. 552,292,508

INVESTMENT IN NON-BUSINESS TYPE JOINT VENTURE 5,624,624

**ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS**

Internal Service Funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.

Cash and investments	14,464,898
Cash and investments with fiscal agent	-
Accounts receivable	352,013
Interest receivable	-
Materials, supplies and prepaids	370,063
Accounts payable	(5,004,625)
Long-term estimated claims	(14,125,037)
Compensated absences	(142,217)
Internal balances	(3,135,924)

**ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES**

Revenues which are deferred on the Fund Balance Sheets because they are not available currently are taken into revenue in the Statement of Activities. 69,515,074

**LONG TERM LIABILITIES**

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Reserve against conditional grant balances	(3,581,119)
Long-term debt	(190,990,000)
Interest payable	(2,414,365)
Non-current portion of compensated absences	(10,203,089)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 725,146,735

See accompanying notes to basic financial statements.

**CITY OF SANTA CLARA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2008**

	General	Redevelopment Agency	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Sales	\$40,515,991	\$ -	\$ -	\$ 40,515,991
Ad valorem	27,606,138	26,930,128	-	54,536,266
Transient occupancy	11,268,817	-	-	11,268,817
Other	4,293,250	-	1,165,763	5,459,013
Licenses, permits, fines, and penalties	5,231,785	-	-	5,231,785
Intergovernmental	1,494,687	-	8,265,214	9,759,901
Charges for services	20,771,595	-	1,739,262	22,510,857
Contributions in-lieu of taxes	14,731,755	-	-	14,731,755
Interest and rents	8,654,402	20,406,139	1,486,853	30,547,394
Net increase/decrease in the fair value of investments	273,640	151,096	(166,835)	257,901
Other	241,036	1,649,520	1,707,357	3,597,913
Total Revenues	135,083,096	49,136,883	14,197,614	198,417,593
<b>EXPENDITURES</b>				
Current:				
General Administration	12,243,279	13,409,459	1,688,360	27,341,098
City Clerk	690,852	-	-	690,852
City Attorney	1,048,649	-	-	1,048,649
Human Resources	1,681,683	-	-	1,681,683
Finance	7,725,625	-	-	7,725,625
Public Works	14,374,506	-	1,932,211	16,306,717
Parks and Recreation	11,906,561	-	825,066	12,731,627
Public Safety:				
Police	39,856,113	-	233,461	40,089,574
Fire	31,542,598	-	93,968	31,636,566
Planning & Inspection	5,112,374	-	-	5,112,374
Library	6,790,221	-	218,177	7,008,398
Capital outlay	88,023	13,189,744	11,713,553	24,991,320
Debt service (Note 11)				
Principal payments	-	4,955,000	4,515,000	9,470,000
Interest and fiscal fees	-	8,322,978	2,959,995	11,282,973
Bond Cost Expense	-	-	10,886	10,886
Total Expenditures	133,060,484	39,877,181	24,190,677	197,128,342
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,022,612	9,259,702	(9,993,063)	1,289,251
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	4,264	-	-	4,264
Transfers in (Note 9A)	13,846,854	-	18,349,322	32,196,176
Transfers (out) (Note 9A)	(16,980,203)	(9,572,782)	(3,029,518)	(29,582,503)
Total Other Financing Sources (Uses)	(3,129,085)	(9,572,782)	15,319,804	2,617,937
NET CHANGE IN FUND BALANCES	(1,106,473)	(313,080)	5,326,741	3,907,188
Fund balances at beginning of period	77,119,260	169,003,393	63,498,170	309,620,823
FUND BALANCES AT END OF PERIOD	\$76,012,787	\$168,690,313	\$68,824,911	\$313,528,011

See accompanying notes to basic financial statements

**CITY OF SANTA CLARA**  
**Reconciliation of the**  
**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS**  
**with the**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	3,907,188
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

**ACCRUAL OF CURRENT ITEMS**

The amounts below included in the Statement of Activities do not provide or (require) the use of financial resources over 90 days and therefore are not reported as revenue or expenditures in governmental funds (net change):

Current portion of compensated absences		(1,404,080)
---	--	-------------

**CAPITAL ASSET TRANSACTIONS**

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance		17,312,516
--	--	------------

Depreciation expense is deducted from the fund balance

(Depreciation expense is net of internal service fund depreciation of \$1,384,786 which has already been allocated to serviced funds.)		(19,178,519)
--	--	--------------

Retirements and transfers of capital assets (net of internal service fund retirements of \$857)		(6,192,951)
---	--	-------------

Contributions of infrastructure and improvements by developers are capitalized in the Statement of Activities, but are not recorded in the Fund Statements because no cash changed hands.		9,599,797
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JOINT VENTURE		5,624,624
---------------	--	-----------

**LONG TERM DEBT PROCEEDS AND PAYMENTS**

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.

Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance		9,470,000
---	--	-----------

**ACCRUAL OF NON-CURRENT ITEMS**

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Provision for reserve of conditional grants		170,749
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Non-current portion of compensated absences		(501,757)
---	--	-----------

Interest payable		215,248
------------------	--	---------

Deferred revenue		3,169,678
------------------	--	-----------

**ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY**

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds.

The portion of the net revenue (expense) of these Internal Service Funds, arising out of their transactions with Governmental Funds, is reported with governmental activities, because they service those activities.

Change in Net Assets - All Internal Service Funds, net		(581,574)
--	--	-----------

Change in Net Assets of Internal Service Funds reported with Business-Type Activities		(1,072,405)
---	--	-------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>20,538,514</u>
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See accompanying notes to basic financial statements.

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CITY OF SANTA CLARA MAJOR PROPRIETARY FUNDS
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Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through use charges.

The City has identified the funds below as major proprietary funds in fiscal year 2007-08.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

#### ELECTRIC UTILITY FUND

This fund accounts for the operation of the City's electric utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

#### WATER UTILITY FUND

This fund accounts for the operation of the City's water utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

#### SEWER UTILITY FUND

The Sewer Utility fund accounts for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

#### WATER RECYCLING UTILITY FUND

This fund accounts for the ongoing maintenance and operations of the City's waste water reclamation system. It is a self-supporting activity that provides services on a user charge basis from the sale of non-potable water for irrigation and landscaping.

**PROPRIETARY FUNDS**  
**STATEMENT OF NET ASSETS**  
June 30, 2008

Business-type Activities-Enterprise Funds

	<u>Electric Utility</u>	<u>Water Utility</u>	<u>Sewer Utility</u>
<b>ASSETS</b>			
Current assets:			
Cash and investments (Note 8):			
Pooled cash and investments	\$ 332,527,026	\$ 10,037,464	\$ 21,531,764
Investments with fiscal agent	1,188,419	-	-
Receivables (net of allowance for uncollectibles):			
Accounts	55,324,547	2,682,622	1,568,451
Interest	3,304,603	95,393	185,382
Due from other funds (Note 9B)	1,720,005	59,532	314,575
Materials, supplies and prepaids	10,881,428	701,022	-
Total current assets	<u>404,946,028</u>	<u>13,576,033</u>	<u>23,600,172</u>
Noncurrent assets:			
Cash designated for construction (Note 8)	-	303,090	1,507,553
Investment with fiscal agent (Note 8)	8,427,852	-	-
Deposits (Note 8)	4,441,776	-	-
Capital assets (Note 10):			
Land and improvements	13,550,593	661,268	725,328
Buildings and improvements	689,124,619	59,345,499	24,813,057
Equipment	8,709,276	3,454,940	1,439,354
Construction in progress	3,796,643	2,007,187	123,852
	715,181,131	65,468,894	27,101,591
Accumulated depreciation	251,372,058	34,355,137	16,767,350
	<u>463,809,073</u>	<u>31,113,757</u>	<u>10,334,241</u>
Investment in joint ventures (Note 13)	18,295,100	-	89,617,170
Other assets	2,375,961	248,570	163,376
Total noncurrent assets	<u>497,349,762</u>	<u>31,665,417</u>	<u>101,622,340</u>
Total assets	<u>902,295,790</u>	<u>45,241,450</u>	<u>125,222,512</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accrued liabilities	48,507,379	1,593,399	144,962
Interest payable	2,220,872	-	-
Accrued compensated absences (Note 2K)	291,559	64,146	24,881
Due to other funds (Note 9B)	-	76,120	-
Deferred revenue	-	-	-
Current portion of landfill closure liability (Note 12)	-	-	-
Current portion of long-term debt (Note 11)	3,580,000	-	-
Total current liabilities	<u>54,599,810</u>	<u>1,733,665</u>	<u>169,843</u>
Noncurrent liabilities:			
Advance from other funds (Note 9C)	-	-	-
Landfill closure liability (Note 12)	-	-	-
Long-term Portion Est. Claims	-	-	-
Long-term Comp Absences (Note 2K)	1,925,191	423,558	164,292
Long-term obligations (Note 11)	219,527,437	-	-
Total noncurrent liabilities	<u>221,452,628</u>	<u>423,558</u>	<u>164,292</u>
Total liabilities	<u>276,052,438</u>	<u>2,157,223</u>	<u>334,135</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	250,317,907	31,113,757	10,334,241
Restricted for contractual obligations	11,324,266	300,696	970,184
Unrestricted	364,601,179	11,669,774	113,583,952
Total net assets	<u>\$ 626,243,352</u>	<u>\$ 43,084,227</u>	<u>\$ 124,888,377</u>

Amounts reported for *business-type activities* in the Statement of Net Assets are different because certain internal service fund assets and liabilities are included with business-type activities in some cases.

Net assets of business-type activities

See accompanying notes to basic financial statements

Water Recycling Utility	Non-Major Enterprise Funds	TOTAL	Internal Service Funds (Note 2A)
\$ 4,112,750	\$ 2,808,248	\$ 371,017,252	\$ 13,962,340
-	-	1,188,419	-
154,927	2,078,742	61,809,289	352,013
30,651	-	3,616,029	-
-	1,103,860	3,197,972	274,300
-	68,179	11,650,629	370,063
4,298,328	6,059,029	452,479,590	14,958,716
-	510,000	2,320,643	-
-	-	8,427,852	-
-	-	4,441,776	-
-	5,022,446	19,959,635	-
-	72,286,217	845,569,392	-
-	2,540,192	16,143,762	20,918,197
-	9,796,847	15,724,529	-
-	89,645,702	897,397,318	20,918,197
-	47,405,511	349,900,056	16,658,123
-	42,240,191	547,497,262	4,260,074
-	-	107,912,270	-
-	169,110	2,957,017	-
-	42,919,301	673,556,820	-
4,298,328	48,978,330	1,126,036,410	19,218,790
1,277,378	1,938,824	53,461,942	5,004,625
-	-	2,220,872	-
-	9,713	390,299	18,705
-	1,492,592	1,568,712	3,410,224
-	597,674	597,674	-
-	405,000	405,000	-
35,329	-	3,615,329	-
1,312,707	4,443,803	62,259,828	8,433,554
-	5,903,198	5,903,198	-
-	4,062,754	4,062,754	-
-	-	-	14,125,037
-	64,133	2,577,174	123,512
-	-	219,527,437	-
-	10,030,085	232,070,563	14,248,549
1,312,707	14,473,888	294,330,391	22,682,103
-	42,240,191	334,006,096	4,260,074
269,883	-	12,865,029	-
2,715,738	(7,735,749)	484,834,894	(7,723,387)
\$ 2,985,621	\$ 34,504,442	831,706,019	\$ (3,463,313)
		(502,558)	
		\$ 831,203,461	

**CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008**

**Business-type Activities-Enterprise Funds**

	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>
Operating revenues:			
Charges for services	\$ 240,093,419	\$ 22,619,928	\$ 14,454,966
Rents and royalties	-	-	-
Insurance refunds and other	-	-	-
Other	-	-	-
Total operating revenues	<u>240,093,419</u>	<u>22,619,928</u>	<u>14,454,966</u>
Operating expenses:			
Salaries and benefits	17,036,460	3,843,971	1,522,579
Materials, services and supplies	241,402,287	16,889,408	10,544,627
General and administrative	-	-	-
Amortization	1,254,764	80,622	52,856
Depreciation	16,347,676	987,391	456,540
Total operating expenses	<u>276,041,187</u>	<u>21,801,392</u>	<u>12,576,602</u>
Operating income (loss)	<u>(35,947,768)</u>	<u>818,536</u>	<u>1,878,364</u>
Nonoperating revenues (expenses):			
Interest revenue	15,590,392	458,248	906,557
Net (increase) in the fair value of investments	1,096,201	25,094	35,952
Rents and royalties	2,469,000	77,867	-
Joint project contribution	-	-	-
Other revenue	10,471,469	381,101	605,828
Interest expense	(11,740,804)	-	-
Other expense	(6,239,683)	-	-
Equity in income (losses) of joint ventures	(1,486,067)	-	(6,731,141)
Gain (loss) on retirement of assets	-	-	-
Wholesale power sales	172,404,300	-	-
Wholesale power purchases	(177,972,817)	-	-
Total nonoperating revenues	<u>4,591,991</u>	<u>942,310</u>	<u>(5,182,804)</u>
Income (loss) before contributions and transfers	<u>(31,355,777)</u>	<u>1,760,846</u>	<u>(3,304,440)</u>
Contributions	-	-	-
Transfers in (Note 9A)	-	500,000	-
Transfers (out) (Note 9A)	<u>(749,700)</u>	<u>(103,700)</u>	<u>(47,900)</u>
Change in net assets	<u>(32,105,477)</u>	<u>2,157,146</u>	<u>(3,352,340)</u>
Total net assets - beginning	<u>658,348,829</u>	<u>40,927,081</u>	<u>128,240,717</u>
Total net assets - ending	<u>\$ 626,243,352</u>	<u>\$ 43,084,227</u>	<u>\$ 124,888,377</u>

Amounts reported for *business-type activities* in the Statement of Activities are different because the portion of the net (loss) of certain internal service funds is reported with the business-type activities which those funds service.

Change in net assets of business-type activities

See accompanying notes to basic financial statements

<b>Water Recycling Utility</b>	<b>Non-Major Enterprise Funds</b>	<b>TOTAL</b>	<b>Internal Service Funds</b>
\$ 1,484,620	\$ 23,653,618	\$ 302,306,551	\$ 9,318,009
-	1,605,079	1,605,079	-
-	-	-	360,958
-	396,087	396,087	-
<u>1,484,620</u>	<u>25,654,784</u>	<u>304,307,717</u>	<u>9,678,967</u>
107,329	5,695,789	28,206,128	2,084,283
886,747	17,126,862	286,849,931	2,260,793
-	-	-	5,273,388
-	55,052	1,443,294	-
-	2,458,922	20,250,529	1,384,786
<u>994,076</u>	<u>25,336,625</u>	<u>336,749,882</u>	<u>11,003,250</u>
<u>490,544</u>	<u>318,159</u>	<u>(32,442,165)</u>	<u>(1,324,283)</u>
154,556	89,935	17,199,688	471,246
-	-	1,157,247	-
-	-	2,546,867	-
1,676,316	-	1,676,316	-
17,219	-	11,475,617	151,887
(4,227)	-	(11,745,031)	(600,425)
(176,130)	-	(6,415,813)	-
-	-	(8,217,208)	-
-	-	-	(857)
-	-	172,404,300	-
-	-	(177,972,817)	-
<u>1,667,734</u>	<u>89,935</u>	<u>2,109,166</u>	<u>21,851</u>
2,158,278	408,094	(30,332,999)	(1,302,432)
-	7,766,895	7,766,895	-
-	2,336,031	2,836,031	232,200
<u>(501,100)</u>	<u>(4,240,605)</u>	<u>(5,643,005)</u>	<u>(13,900)</u>
1,657,178	6,270,415	(25,373,078)	(1,084,132)
<u>1,328,443</u>	<u>28,234,027</u>		<u>(2,379,181)</u>
<u>\$ 2,985,621</u>	<u>\$ 34,504,442</u>		<u>\$ (3,463,313)</u>
		<u>569,847</u>	
		<u>\$ (24,803,231)</u>	

CITY OF SANTA CLARA  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008

	Business-type Activities-Enterprise Funds			
	Electric Utility	Water Utility	Sewer Utility	Water Recycling Utility
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 233,511,414	\$ 22,163,977	\$ 14,100,519	\$ 1,365,821
Payments to suppliers	(241,008,494)	(18,840,855)	(10,541,600)	(872,508)
Payments to employees	(16,886,969)	(4,032,316)	(1,635,851)	(106,937)
Internal activity - payments to other funds	-	-	-	-
Claims paid	-	-	-	-
Other receipts (payments)	4,176,652	381,101	605,828	17,219
Net cash provided (used) by operating activities	(20,207,397)	1,672,107	2,528,896	403,595
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Wholesale resource sales	172,404,300	-	-	-
Wholesale resource purchases	(177,972,817)	-	-	-
Charges for Joint project contribution	-	-	(569,853)	1,676,316
Expenses for joint project	-	-	-	(226,550)
Increase (decrease) in due from other funds	(168,534)	(3,403)	(30,867)	-
(Increase) decrease in due to other funds	-	(77,171)	-	-
Advances from other funds	-	-	-	-
Transfers in	-	500,000	-	-
Transfers (out)	(749,700)	(103,700)	(47,900)	(501,100)
Cash Flows from Noncapital Financing Activities	(6,486,751)	315,726	(648,620)	948,666
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets, net	(18,126,509)	(2,242,208)	(371,909)	-
Principal payments on capital debt	(27,045,000)	-	-	(70,021)
Interest paid on capital debt	(15,894,765)	-	-	(4,227)
Cash Flows from Capital and Related Financing Activities	(61,066,274)	(2,242,208)	(371,909)	(74,248)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Rents and royalties received	2,454,786	77,867	-	-
Net increase in the fair value of investments	1,096,201	25,094	35,952	-
Interest and dividends	16,874,100	483,628	939,854	155,395
Payments made by fiscal agent	128,780,226	-	-	-
Deposits made with fiscal agent	(110,234,816)	-	-	-
Cash Flows from Investing Activities	38,970,497	586,589	975,806	155,395
Net increase (decrease) in cash and cash equivalents	(48,789,925)	332,214	2,484,173	1,433,408
Cash and cash equivalents at beginning of period	381,316,951	10,008,340	20,555,144	2,679,342
Cash and cash equivalents at end of period	\$ 332,527,026	\$ 10,340,554	\$ 23,039,317	\$ 4,112,750
<b>Cash and cash equivalents:</b>				
Pooled cash and investments	\$ 332,527,026	\$ 10,037,464	\$ 21,531,764	\$ 4,112,750
Cash designated for construction	-	303,090	1,507,553	-
Total cash and cash equivalents	\$ 332,527,026	\$ 10,340,554	\$ 23,039,317	\$ 4,112,750
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (35,947,768)	\$ 818,536	\$ 1,878,364	\$ 490,544
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Amortization	1,254,764	80,622	52,856	-
Depreciation	16,347,676	987,391	456,540	-
Change in assets and liabilities:				
Receivables, net	(5,322,953)	(444,090)	(354,447)	(118,799)
Inventory	(1,404,232)	(53,006)	-	-
Accrued liabilities	549,804	106,175	7,929	14,631
Long-term Portion Est. Claims	-	-	-	-
Compensated absences	83,531	(204,622)	(118,174)	-
Deferred revenue	-	-	-	-
Other receipts	10,471,469	381,101	605,828	17,219
Other expenses	(6,239,683)	-	-	-
Net cash provided (used) by operating activities	\$ (20,207,397)	\$ 1,672,107	\$ 2,528,896	\$ 403,595
<b>NONCASH TRANSACTIONS:</b>				
Joint Ventures				
Nonoperating income (loss)	\$ (1,486,067)	\$ -	\$ (6,731,141)	\$ -
Capital Contribution	\$ -	\$ -	\$ -	\$ -

See accompanying notes to basic financial statements

Non-Major Enterprise Funds	Totals	Internal Service Funds
\$ 25,102,319	\$ 296,244,050	\$ 9,231,962
(17,161,480)	(286,424,747)	(2,346,213)
(5,716,638)	(28,378,711)	(2,075,632)
-	-	(136,197)
-	-	(4,276,385)
386,803	5,567,603	151,887
2,610,994	(12,991,805)	549,422
-	172,404,300	-
-	(177,972,817)	-
-	1,106,463	-
-	(226,550)	-
(43,689)	(246,493)	67,804
(69,194)	(146,365)	257,599
193,154	193,154	-
2,336,031	2,836,031	232,200
(4,240,605)	(5,643,005)	(13,900)
(1,824,303)	(7,695,282)	543,703
(84,711)	(20,825,337)	(652,687)
(414,717)	(27,529,738)	(20,000,000)
-	(15,898,992)	(600,425)
(499,428)	(64,254,067)	(21,253,112)
-	2,532,653	-
-	1,157,247	-
89,935	18,542,912	627,992
-	128,780,226	-
-	(110,234,816)	19,976,851
89,935	40,778,222	20,604,843
377,198	(44,162,932)	444,856
2,941,050	417,500,827	13,517,484
\$ 3,318,248	\$ 373,337,895	\$ 13,962,340
\$ 2,808,248	\$ 371,017,252	\$ 13,962,340
510,000	2,320,643	-
\$ 3,318,248	\$ 373,337,895	\$ 13,962,340
\$ 318,159	\$ (32,442,165)	\$ (1,324,283)
55,052	1,443,294	-
2,458,922	20,250,529	1,384,786
(277,940)	(6,518,229)	(86,046)
(9,284)	(1,486,522)	(49,053)
(31,938)	646,601	(13,661,556)
(23,539)	-	14,125,037
121,562	(262,804)	8,650
-	121,562	151,887
-	11,475,617	-
-	(6,239,683)	-
\$ 2,610,994	\$ (12,991,800)	\$ 549,422
\$ -	\$ (8,217,208)	\$ -
\$ 7,766,895	\$ 7,766,895	\$ -

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CITY OF SANTA CLARA FIDUCIARY FUNDS
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Fiduciary Funds – Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

CITY OF SANTA CLARA  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2008

	<u>Agency Funds</u>
ASSETS	
Pooled cash and investments (Note 8)	\$14,207,080
Investments with fiscal agents (Note 8)	<u>211,984</u>
Total Assets	<u>\$14,419,064</u>
LIABILITIES	
Due to bondholders	\$ 3,418,184
Accrued liabilities	6,473,352
Refundable deposits	<u>4,527,528</u>
Total Liabilities	<u>\$14,419,064</u>

See accompanying notes to basic financial statements

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**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 1 – DEFINITION OF THE REPORTING ENTITY**

The City of Santa Clara (City), also known as the Mission City, is a charter city incorporated in 1852 under the laws of the State of California. The City Charter establishes the Council/Manager form of government. The City's citizens elect a City Council of seven citizens, six councilpersons and a Mayor elected at-large, who serve a term of four years each, and who, in turn, appoint a City Manager.

The City is located in the County of Santa Clara, California, approximately 45 miles southeast of San Francisco and three miles north of downtown San Jose. It is situated in the northern part of the County and occupies approximately 19.2 square miles. The City's population of 115,503 accounts for 6.35% of the total Santa Clara County population of 1.82 million.

The City provides a full range of municipal services, including police and fire, library, recreation, community services, public works, parks, sanitation, planning and community development, public improvements, electric, water and sewer services.

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. The City's component units which are described below are all blended.

***The Redevelopment Agency of the City of Santa Clara***

The Redevelopment Agency of the City of Santa Clara (Agency) was established by the City Council in 1957 with the authority and responsibility for developing and upgrading blighted areas of the City. The members of the City Council are also members of the Agency's Board of Directors and, as such, are authorized to transact business and exercise power to plan, engineer, and implement projects of the Redevelopment Plan. The City performs all accounting and administrative functions of the Agency. The financial activities of the Agency have been reported in the accompanying basic financial statements in the Redevelopment Agency Fund. Separate financial statements have been issued for the Agency and are available at Santa Clara City Hall in the City Clerk's Office.

***City of Santa Clara Sports and Open Space Authority***

The City of Santa Clara Sports and Open Space Authority (SOSA) was created by the City Council in 1974 for the acquisition and development of open space within the City. The members of the City Council are also members of SOSA's Board of Directors and, as such, are authorized to transact business and exercise power to purchase, lease or otherwise obtain and dispose of real and personal property, to acquire, construct, maintain, repair, manage and operate real and personal property, including leasing to private operators for commercial purposes, surplus space which is not economical to use for open space planning. The City performs all accounting and administrative functions. The operations of SOSA have been included in the accompanying basic financial statements in the Enterprise Fund.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 1 – DEFINITION OF THE REPORTING ENTITY (Continued)**

***City of Santa Clara Public Facilities Financing Corporation***

The City of Santa Clara Public Facilities Financing Corporation (PFFC) was formed in 1997 for the purpose of issuing Certificates of Participation (COPs) to provide financing for the construction of the Police Administration Building. Members of the City Council are also members of the PFFC Board. Debt service on the COPs is secured by lease payments made by the City's General Fund to the PFFC for the use of the Police Administration Building site. In accordance with the lease agreement, the PFFC assigns lease payments received from the City to the trustee for payment to the certificate holders. The operations of PFFC have been included in the accompanying basic financial statements in the Debt Service Fund.

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

***A. Basic Financial Statements***

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

The significant accounting policies are described below:

***Government-wide Financial Statements:*** The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Interfund Services provided and used are allocated to governmental and business-type activities, as appropriate. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

***Fund Financial Statements:*** The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental, proprietary, and fiduciary*—are presented. The emphasis of fund financial statements is

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for services. Operating expenses for the City's enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***B. Major Funds***

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount to all governmental and enterprise fund for the same item. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

The City reported the following major governmental funds in the accompanying financial statements:

***General Fund*** - This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

***Redevelopment Agency Fund*** - This fund accounts for the construction or acquisition of public improvements of the Agency; housing set aside funds received from Agency tax increment for the purpose of developing low to moderate income housing; and for monies for the payment of Agency long-term obligations which are financed by tax increment and lease revenues.

The City reported the following enterprise funds as major funds in the accompanying financial statements:

***Electric Utility Fund*** - This fund accounts for the operation of the City's electric utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

***Water Utility Fund*** - This fund accounts for the operation of the City's water utility, a self-supporting activity that provides services on a user charge basis to residences and businesses.

***Sewer Utility Fund*** - This fund accounts for the maintenance of the City's sewer lines and related facilities. It is a self-supporting activity that provides services on a user charge basis to residences and businesses.

***Water Recycling Utility Fund*** - This fund accounts for the ongoing maintenance and operations of the City's waste water reclamation system. It is a self-supporting activity that provides services on a user charge basis from the sale of non-potable water for irrigation and landscaping.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

The City also reports the following fund types:

**Internal Service funds** - These funds account for maintenance of vehicles and communication and computer equipment; general liability and workers' compensation claims, all of which are provided to other departments on a cost-reimbursement basis.

**Fiduciary funds** - These funds account for assets held by the City in trust for community or private organizations, or as an agent for its employees or for assessment districts. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

**C. Basis of Accounting**

The government-wide financial statements and the fund category, proprietary, and fiduciary fund category financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place. Agency Funds have no measurement focus.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

The City allocates certain indirect expenses incurred by the General Government activity to those activities that benefit.

The City follows Statements and interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

During fiscal year 2007-08 the City implemented the following GASB Statements: Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and non-pension benefits, Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" which establishes criteria that governments will use to ascertain whether the proceeds received, should be reported as revenue or as a liability and Statement No. 50, "Pension Disclosures", which enhances information disclosed in Note 14, Retirement Plan (Defined Benefits Pension Plan), to the financial statements.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

The GASB issued Statements No 49 "*Accounting and Financial Reporting for Pollution Remediation Obligations*" which provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts and Statements No. 52 "*Land and Other Real Estate Held as Investments by Endowments*" which addresses the valuation of land and other real estate investments held in endowment portfolios, both statements become effective July 1, 2008.

The City is analyzing the effects of these pronouncements and planning to adopt them by the effective date. The City does not anticipate a material impact with the adoption of these standards.

***D. Pooled Cash and Investments***

While maintaining safety and liquidity, the City maximizes investment return by pooling its available cash for investment purposes. Unless there are specific legal or contractual requirements to do otherwise, interest earnings are apportioned among funds according to average monthly cash and investment balances. It is generally the City's intention to hold investments until maturity. City investments are stated at fair value (see Note 8).

Cash and cash equivalents for purposes of the statement of cash flows include pooled cash and investments and cash designated for construction. Transactions with City-wide cash management pools are similar to those with external investment pools; therefore, since pooled cash and investments have the same characteristics as demand deposits in that the City's individual funds and component units may withdraw additional monies at any time without prior notice or penalty, pooled cash and investments are considered essentially demand deposit accounts.

Cash and investments with fiscal agent, a bond reserve investment pool, and amounts classified as deposits are not considered cash and cash equivalents.

***E. Interfund Transactions and Balances***

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. The related receivables and payables are classified as "due from other funds," and "due to other funds" in the fund financial statements. Long-term interfund receivables and payables are recorded as advances.

Transactions constituting reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities, and are reported only in the government-wide financial statements.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

***F. Inventory of Materials and Supplies***

Inventory of materials and supplies is accounted for using the consumption method and is stated at average cost. Inventory consists of expendable supplies held for consumption by all departments of the City. The cost is recorded as an expenditure or expense in the appropriate fund at the time individual inventory items are withdrawn for use. The General Fund inventory amount is equally offset by a fund balance reserve, which indicates that it does not constitute available expendable resources.

***G. Restricted Assets***

Restricted assets are monies or other resources, the use of which is restricted by legal or contractual requirements.

***H. Land Held for Redevelopment***

The Redevelopment Agency has purchased parcels of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for as investments on the balance sheet at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

Individual parcels which have experienced an other than temporary market value decline are written down to estimated current market value. No appreciation is recorded if the current market value of an individual parcel exceeds cost.

***I. Capital Assets***

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City's policy is to capitalize equipment with costs exceeding \$5,000 and with useful lives exceeding two years and buildings, improvements and infrastructure with costs exceeding \$20,000.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Public domain ("infrastructure") assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and traffic signals, have been capitalized and reported in the government-wide financial statements. Depreciation has been provided on all capital assets, including infrastructure, on a straight-line basis over the estimated useful lives of the assets.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

	Useful Lives (Years)	Capitalization Threshold
Buildings	20-55	\$20,000
Improvements	20-50	\$20,000
Equipment	3-25	\$ 5,000
Infrastructure	20-50	\$20,000

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated (if applicable) over the remaining useful lives of the related capital assets.

Capital assets and the related obligations acquired under lease/purchase agreements are capitalized and accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for Leases*.

***J. Joint Ventures***

The City's Electric and Sewer Utility funds participate in several joint ventures. In accordance with GASB Statement No. 14 investments in these joint ventures are accounted for on the equity method (see Note 13). If the City's equity in net losses of joint ventures exceeds its investment, use of the equity method is suspended except to the extent that the City is obligated to provide further financial support or has guaranteed obligations of the joint ventures.

The City advances funds to certain of its joint ventures in the form of refundable advances, project advances and operating and maintenance advances. Refundable advances accrue interest at rates stated in the related agreements. Operating, maintenance and project advances are charged to operations when incurred.

Capitalized project costs are charged to operations in the event that a project is determined to be not economically feasible.

***K. Compensated Absences***

Amounts of vested or accumulated vacation leave and benefits that are not expected to be liquidated with expendable available financial resources are reported in the Governmental Activities portion of the government-wide financial statements only. Vested or accumulated vacation leave and benefits of proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to employees. Vacation time is earned based on length of service in amounts ranging between 10 and 21 days per year. City employees are allowed to carry over unused vacation earned. The maximum amount of time that can be carried over varies, depending on the employee's rate of accrual, with an upper limit of 400 hours. Employees are paid for unused accruals upon termination of employment.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, a liability for sick leave and benefits is accrued using the vesting method. The vesting method provides that a governmental entity estimates its accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. Amounts of sick leave payments that are not expected to be liquidated with expendable available financial resources are reported in the Governmental Activities portion of the government-wide financial statements only. No expenditure is reported for these amounts in the governmental fund financial statements.

That portion of compensated absences that is unused reimbursable leave still outstanding following an employee's resignation or retirement at year end, is an expense and current liability of the General Fund. Estimated sick leave payments of proprietary funds are recorded as an expense and liability of those funds.

The accrual for compensated absences comprised the following at June 30, 2008. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$ 11,332,743	\$ 3,071,023	\$ 14,403,766
Additions	2,079,735	355,631	2,435,366
Payments	1,521,972	459,181	1,981,153
Ending Balance	\$ 11,890,506	\$ 2,967,473	\$ 14,857,979
Current Portion	\$ 1,563,905	\$ 390,299	\$ 1,954,204

**L. Risk Management**

The City is self-insured up to \$5 million to provide general liability protection. In addition, the City is also self-insured up to \$500 thousand per claim for Workers' Compensation Claims. These self-insurance programs are administered by outside agencies.

The City maintains excess liability insurance with Everest National and American Merchants, with an aggregate and per occurrence coverage of \$20 million with the City's self insured retention limit being \$5 million. The City also maintains excess workers' compensation insurance for workers' compensation claims over \$500 thousand per claim with coverage up to \$300 million.

Additionally, the City maintains property damage coverage through the Public Entity Property Insurance Program (PEPIP), which has a plan limit of \$1 billion. The City maintains boiler and machinery property coverage of \$100 million per occurrence in excess of self-insured amounts varying from \$2,500 to \$500,000 per occurrence. No claims settlement amount exceeded the City's insurance coverage in the past three fiscal years.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

***M. Long-Term Obligations***

Long-term obligations are reported in the Governmental Activities portion of the government-wide financial statements. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

***N. Accounting for Encumbrances***

The City utilizes an encumbrance system of accounting wherein encumbrances outstanding at year end, for which the goods or services have not been received, are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. The City Charter requires recording encumbrances as a charge against appropriations in the accounting period in which a purchase order is issued, rather than in the accounting period when goods or services are received.

Under the modified accrual basis of accounting, in accordance with GAAP, expenditures are recorded when the goods or services are received. Adjustments to convert expenditures from the modified accrual basis to the budgetary basis are reflected in the schedule of revenues, expenditures, and changes in fund balances - budget and actual (non-GAAP legal basis) (see Note 3 and Required Supplementary Information).

***O. Contributed Assets***

Some capital assets may be acquired using federal and State grant funds, or they may be contributed by developers or other governments. These contributions are accounted for as revenues at the time the capital assets are contributed.

***P. Net Assets and Fund Equity***

Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Reserved fund equity represents those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent the City's current plans for future use of financial resources.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

***Q. Bond Discounts/Issuance Costs***

In governmental funds, bond discounts and issuance costs and governmental activities in the entity wide financial statement are recognized in the current period. Bond discounts and issuance costs for proprietary funds are deferred and amortized over the term of the bonds using a method which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges.

***R. Property Taxes***

The State of California Constitution Article XIII A provides that the combined maximum tax rate on any given property may not exceed 1% of its assessed value except for voter approved incremental property taxes adopted prior to the passage of Article XIII A and any additional amount for general obligation debt approved by voters subsequent to the passage of Article XIII A.

Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless there is a new construction on the property or the property is sold or transferred. The State Legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts and other districts.

Santa Clara County (County) assesses properties and bills and collects property taxes on behalf of the City as follows:

	Secured	Unsecured
Valuation dates	January 1	January 1
Lien/levy dates	January 1	January 1
Due dates	50% on November 1, 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (for November), April 10 (for February)	August 31

The term "unsecured" refers to taxes on property not secured by liens on real property and generally includes business use personal property.

The City participates in the Teeter Plan offered by the County whereby cities receive 100% of secured property tax levied in exchange for foregoing any interest and penalties collected on delinquent taxes.

Property taxes levied are recorded as revenue when received from the County. Property taxes expected to be collected within 60 days of the end of the fiscal year are recorded as revenue.

The City's net assessed valuation for the year ended June 30, 2008, was \$22.1 billion, an increase of 8.64% compared to the previous year. The average tax rate was 1.08% per \$100 of assessed valuation.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

***S. Contribution In-Lieu of Taxes***

Contribution in lieu of taxes is a general revenue of the governmental funds. It is levied on receipts of the City-owned and operated utilities in accordance with the City Charter. Non-City owned and operated utilities pay a franchise fee, which is also a governmental activities general revenue source.

***T. Special Assessment Districts with City Commitment***

Recognition of revenue related to noncurrent receivables of special assessment district funds is deferred until such receivables become current. There is no reserve for delinquent receivables since liens exist against the related properties and hence the City's management believes the City will ultimately receive value equal to the delinquent receivables. Surplus fund balances remaining at the completion of a special assessment district project are disposed of in accordance with City Council resolutions and with the applicable assessment bond laws of the State of California.

***U. Income Taxes***

The City falls under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal or state income taxes.

***V. Lease Agreements***

Any operating leases with scheduled rent increases are accounted for in accordance with SFAS Statement No. 13, *Accounting for Leases*.

***W. Arbitrage Rebate Liability***

Arbitrage rebate liabilities, if any, are included in accrued liabilities.

***X. Revenue Recognition***

Electric, Water, Sewer and Solid Waste Fund revenues are recognized based on cycle billings periodically rendered to customers. Revenues for services provided, but not billed at the end of a fiscal year, are recognized and accrued based on estimated consumption.

Governmental Activities revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 2 – FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

***Y. Non-exchange Transactions***

The City gives or receives value without directly receiving or giving equal value in exchange, including grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

***Z. Financial Instruments***

Financial instruments included in the City's basic financial statements, excluding cash and investments, consisted of accounts receivable, accrued liabilities, and bonds payable at June 30, 2008. The carrying amounts are a reasonable estimate of fair value.

***AA. Conditional Grants***

The City has several programs under which it extends loans to qualifying individuals or groups for the purpose of improving the City's housing stock and/or its supply of low-and moderate-income housing. Certain of these loans provide for the eventual forgiveness of the loan balance if the borrower complies with all the terms of the loan over its full term. The City accounts for these loans as conditional grants in the City-wide financial statements, and provides a reserve against their eventual forgiveness using the straight-line method over the life of the respective loan.

***AB. Use of Estimates***

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING**

The budget of the City is a detailed operating plan that identifies estimated costs and activities in relation to estimated revenues. The budget includes: (1) the projects, services and activities to be provided during the fiscal year, (2) the estimated revenue available to finance the operating plan, and (3) the estimated spending requirements of the operating plan.

The budget process is the mechanism through which policy decisions are made, implemented and controlled. The City Charter requires that the City establish a budgetary system for general operations and prohibits expending funds for which there is no legal appropriation. The City is required to adopt a budget on or before June 30 for the ensuing fiscal year that begins July 1. Activities of the General

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING (continued)**

Fund and the Maintenance Special Revenue Fund are included in the annual appropriated operating budget. The procedures followed to establish the budgetary data reflected in the accompanying required supplementary information to the basic financial statements are as follows:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. This includes a Five Year Financial Plan to aid in the planning and funding of operations and capital projects over the next five years.
2. Public hearings are conducted to obtain public comments.
3. The operating and capital budgets are legally enacted through the passage of a minute order and 5-Year Plan is approved.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the applicable governmental funds. The City Council may amend the budget by motion during the fiscal year. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the object category level. The operating budget is presented at the object category level within programs of departments. The City Manager may transfer appropriations within the same object category of a department within the same fund without approval from the City Council. All other transfers require City Council approval, including a transfer from one object category to another object category of the same department.

Budget information is presented on a non-GAAP budgetary basis. Budgeted revenue amounts represent the original budget modified by adjustments authorized during the year. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations and transfers during the year. Budget amounts in the schedules of revenues, expenditures and changes in fund balances-budget and actual, include supplemental appropriations approved by the City Council during the year. Total expenditures of the General and the Maintenance Special Revenue Funds may not legally exceed fund appropriations.

All annual appropriations lapse at the end of the fiscal year to the extent they have not been expended or encumbered. For the actual GAAP basis financial statements, encumbered appropriations are not reported as expenditures, but are reported as a reservation of fund balance available for subsequent year expenditures, based on the encumbered appropriation authority carried over to the next fiscal year.

In addition to the annual Operating Budget, each year the City Council adopts a project length Capital Improvement Project budget.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 4 – THEME PARK, HYATT REGENCY, TECHMART, AND SANTA CLARA HOTEL GROUND LEASES**

**A. Theme Park Ground Lease**

In June 1985, the Agency acquired the Great America Theme Park (Theme Park) and entered into a management agreement with Kings Entertainment Company (Kings) to manage the Theme Park operations. The Agency also entered into a Ground Lease and Assets Option Agreement (Option Agreement) with Kings Great America, Inc. (KGA), a wholly owned subsidiary of Kings.

In June 1989, the Agency sold the Theme Park operations to Kings pursuant to the Option Agreement, as amended. The sale was effective retroactive to January 1, 1989. In addition to the Theme Park buildings, rides and equipment, Kings purchased all other operating assets and assumed all operating liabilities of the Theme Park as of January 1, 1989. Concurrent with the sale of the Theme Park, the Agency as lessor, entered into a Ground Lease with First Refusal Purchase Rights (Ground Lease) with Kings pursuant to the Option Agreement, as amended, to lease the real property used in the operations of the Theme Park.

The Ground Lease expires on December 31, 2019, with an option to extend for 2 additional terms of 10 years each. In the event of a termination or expiration of the Ground Lease, the Agency has an option to repurchase the assets of the Theme Park.

In August 1992, the Agency assigned the Ground Lease to Paramount Parks, Inc. (Paramount) concurrent with Paramount's purchase of the operating assets of Kings. Paramount assumed the Ground Lease with no amendments or modifications. For the duration of the Ground Lease, and for 3 years after its expiration or termination, Paramount has the right to match any bona fide offer to buy or lease all or a portion of the leased property if the leased property is sold or leased for use as a theme park.

On May 22, 2006, Paramount's parent companies entered into a Purchase Agreement with Cedar Fair, L.P. (Cedar Fair), pursuant to which Cedar Fair agreed to purchase all of the outstanding capital stock of Paramount. Cedar Fair assumed the Ground Lease with no amendments or modifications.

The basic rent under the Ground Lease is \$5.3 million annually, payable in quarterly installments of \$1.325 million, plus additional rent equal to the sum of 5% of the annual gross revenues of the Theme Park in excess of \$56 million up to \$100 million plus 7.5% of the annual gross revenues in excess of \$100 million. For fiscal year ended June 30, 2008, Cedar Fair did not pay additional rent to the Agency.

The Agency transfers the lease revenues to the City for payments on its obligations under a Cooperation Agreement with the City related to the development of the Santa Clara Gateway Irvine Project (see Note 5).

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 4 – THEME PARK, HYATT REGENCY, TECHMART, AND SANTA CLARA HOTEL GROUND LEASES (Continued)**

The following schedule summarizes the approximate future minimum lease revenues to be received by the Agency from the Theme Park ground lease:

Fiscal Year	Amount
2009	\$5,300,000
2010	5,300,000
2011	5,300,000
2012	5,300,000
2013	5,300,000
Thereafter	34,450,000
	<u>\$60,950,000</u>

**B. Hyatt Regency Ground Lease and Ballroom Lease**

In April, 1985, the Agency entered into a long-term ground lease with SCCC Associates (Lessee) for the development of a certain portion of that piece of land – the Bayshore North Redevelopment Project Area, and eventual operation of a high quality hotel and related facilities, amenities and improvements including one of the Ballrooms in the Convention Center. The lease is for an initial term of fifty years. The Lessee has options to renew the lease for four additional periods of ten years each and one additional period of nine years. In 2005, SHC New Santa Clara, L.L.C., the successor-in-interest to SCCC Associates at that time sold the interest to Hyatt Equities, L.L.C. Under the terms of the lease, the Agency is entitled to receive a specified amount of minimum rent subject to adjustment at times specified in the lease. The Agency is also entitled to receive additional rent at amounts, which specified percentage of the gross revenues of the hotel exceeds the total amount of minimum rent for the applicable lease year.

The minimum rent of the Ballroom lease is adjusted every three years according to the agreement. The current minimum rent was adjusted to \$339 thousand from \$269 thousand effective July 1, 2008. For lease year ended June 30, 2008, Lessee paid to the Agency minimum and percentage rents of about \$1.2 million and \$269 thousand in Ground lease and Ballroom lease respectively. Lessee has agreed to pay any impositions, including, but not limited to, taxes and assessments levied against the parcel. The Agency is to pay all lease revenues received from the lease of the Hyatt parcel to the City's General Fund.

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**Notes to Basic Financial Statements**  
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**NOTE 4 – THEME PARK, HYATT REGENCY, TECHMART, AND SANTA CLARA HOTEL GROUND LEASES (Continued)**

The following schedule summarizes the approximate minimum future revenues to be received by the Agency from this lease:

Fiscal Year	Ground Lease Amount	Ballroom Lease Amount	Total
2009	\$400,000	\$339,060	\$739,060
2010	400,000	339,060	739,060
2011	400,000	339,060	739,060
2012	400,000	339,060	739,060
2013	400,000	339,060	739,060
Thereafter	8,733,332	7,402,810	16,136,142
	<u>\$10,733,332</u>	<u>\$9,098,110</u>	<u>\$19,831,442</u>

**C. TECHMART Ground Lease**

In May 1998, the Agency entered into a long-term ground lease of the TECHMART parcel with CarrAmerica. The lease has a fifty-five-year term with options for two additional ten-year terms. The Agency will receive \$1 million annual rent for each of the first ten years of the lease. Annual rent increases are scheduled as follows: 10% in the eleventh year and every five years thereafter during the initial term and 15% in the first and sixth year of each option term. Under the terms of the lease, CarrAmerica, assumed responsibility for all taxes and assessments levied against the TECHMART parcel and the Agency's interest in the lease is unsubordinated.

On July 13, 2006, CarrAmerica merged with Nantucket Acquisition, Inc., a wholly owned subsidiary of The Blackstone Group; the terms and conditions of the lease agreement remain in effect. The Agency is to pay all lease revenues received from the lease of the TECHMART parcel to the City's General Fund.

The following schedule summarizes the future lease payments to be received by the Agency from the TECHMART lease agreement:

Fiscal Year	Amount
2009	\$1,100,000
2010	1,100,000
2011	1,100,000
2012	1,100,000
2013	1,109,167
Thereafter	69,086,287
	<u>\$74,595,454</u>

**CITY OF SANTA CLARA**  
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**NOTE 4 – THEME PARK, HYATT REGENCY, TECHMART, AND SANTA CLARA HOTEL GROUND LEASES (Continued)**

**D. Santa Clara Hotel Ground Lease**

In July 1999, the Agency entered into a long-term ground lease with Santa Clara Hotel, LLC (Lessee) for the development of a certain portion of that piece of land – the North Parcel, and eventual operation of a high quality hotel and related facilities, amenities and improvements. The lease is for an initial term of fifty-five years. The Lessee has options to renew the lease for three additional periods of ten years. Under the terms of the lease, the Agency is entitled to receive a specified amount of minimum rent subject to adjustment at times specified in the lease. Beginning with the third lease year, the Agency is also entitled to receive additional rent at amounts, which specified percentage of the gross revenues of the hotel exceeds the total amount of minimum rent for the applicable lease year. For lease year ended June 30, 2008, Lessee paid to the Agency about \$633 thousand in minimum and percentage rents. Lessee has agreed to pay any impositions, including but not limited to taxes and assessments levied against the parcel.

Previously, the Agency paid all lease revenues received from this lease to the City's Electric Utility Fund. This arrangement terminated on July 11, 2006, when the City Council approved the sale of the City's Electric Utility interest in the ground lease revenues to the Agency. The Agency transfers the lease revenues to the City for payments on its obligations under a Cooperation Agreement with the City related to the development of the Santa Clara Gateway Irvine Project (see Note 5).

The following schedule summarizes the approximate minimum future revenues to be received by the Agency from this lease:

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$ 400,000
2010	400,000
2011	400,000
2012	400,000
2013	400,000
Thereafter	16,433,333
	<u>\$18,433,333</u>

**NOTE 5 – GROUND LEASE – THE IRVINE COMPANY**

**A. Irvine Company Disposition and Development Agreement With Ground Lease**

In April 2000, the Agency entered into a Disposition and Development Agreement with Ground Lease with The Irvine Company (Developer) for development of the site as an office/R&D complex. The site will be subdivided into several parcels to accommodate the phased development of the project. The Agency and Developer have identified certain improvements (conditions precedent) to be completed to prepare the site for development. The Agency and Developer have also identified responsibilities for certain costs of the conditions precedent. As of June 30, 2008, the Agency has appropriated \$18.2 million and expended \$14.4 million (for its share of these costs) for the following projects: Golf Course Fairways Relocation and Perimeter Drainage, Wetland Mitigation – Yerba Buena Parcels, Yerba Buena Owl Mitigation, Landfill Cut-off Wall, and the Yerba Buena Way Site Remediation.

**CITY OF SANTA CLARA**  
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**NOTE 5 – GROUND LEASE – THE IRVINE COMPANY (continued)**

Under the DDA, the Agency has leased out to the developer Parcel 2 effective February 16, 2001. Rent on Parcel 2 began 28 months and 3 days from the effective date. The term of the lease shall be at least 75 years but no more than 80 years from the effective date of the lease. The Agency will receive specified amount of minimum rent subject to adjustment at times specified in the lease.

The following schedule summarizes the approximate future lease revenues to be received by the Agency from the lease of Parcel 2:

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$3,639,002
2010	3,639,002
2011	3,639,002
2012	3,639,002
2013	3,639,002
Thereafter	227,892,500
	<u>\$246,087,510</u>

**B. Santa Clara Gateway Cooperation Agreement**

In April 2000, the Agency entered into a Cooperation Agreement (Agreement) with the City, whereby the Agency will acquire from the City a 42-acre site (site) bounded by Great America Parkway, Highway 237, Lafayette Street and the City's Golf Course. A Cooperation Agreement between the City and the Agency stipulated that the Agency agreed to pay consideration to the City for the site in an amount equal to all rent that the Agency will receive from the eventual lease of the site. The Cooperation Agreement was amended in June 2005 to expand the sources of funds from which the Agency makes payments on the site to the City. The Agency agreed to make payments from any source of funds when and as available and not reasonably needed for other redevelopment purposes. As of the end of the fiscal year, the Agency has identified the lease payments on the ground leases of the Theme Park and Santa Clara Hotel as additional sources for payment of the site. The amended Agreement also provided for payment of interest by the Agency at the highest rate allowable by law on the \$101 million agreed upon valuation of the site.

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**NOTE 5 – GROUND LEASE – THE IRVINE COMPANY (continued)**

The following schedule summarizes the approximate future payments to the City by the Agency on the Cooperation Agreement:

Fiscal Year	Irvine Parcel 2 (Note 5A)	Theme Park (Note 4A)	Santa Clara Hotel (Note 4D)	Total Amount
2009	\$ 3,639,002	\$ 5,300,000	\$ 400,000	\$ 9,339,002
2010	3,639,002	5,300,000	400,000	9,339,002
2011	3,639,002	5,300,000	400,000	9,339,002
2012	3,639,002	5,300,000	400,000	9,339,002
2013	3,639,002	5,300,000	400,000	9,339,002
Thereafter	227,892,500	34,450,000	16,433,333	278,775,833
Total	<u>\$ 246,087,510</u>	<u>\$ 60,950,000</u>	<u>\$ 18,433,333</u>	<u>\$ 325,470,843</u>

**NOTE 6 - ENTERPRISE FUND MANAGEMENT AGREEMENTS**

**A. Santa Clara Convention and Visitors Bureau and Convention Center**

In March 1984, the City entered into two separate management agreements with the Santa Clara Chamber of Commerce and Convention/Visitors Bureau, Inc. (Chamber). The first agreement with the Chamber is for the management of the operations of the Santa Clara Convention/Visitors Bureau. In fiscal year ended June 30, 2008, the City paid the Chamber \$ 1.41 million under this contract. The second management agreement between the City and the Chamber is for the management of the operations of the Santa Clara Conference and Convention Center (Convention Center). Under the terms of this agreement, the Chamber will receive for its services an annual management fee identified in the Convention Center budget and approved by the City Council. In fiscal year ended June 30, 2008, the Convention Center paid the Chamber \$45 thousand. Each agreement is extendible for an additional year at the end of each year. Either party may terminate the agreements by providing 180 days written notice.

**B. American Golf Corporation**

In May 1987, SOSA entered into a management agreement with American Golf Corporation (AGC) to manage the operations of the Santa Clara Golf and Tennis Club (SCG&TC). On June 4, 2002, SOSA approved an additional extension of the management agreement to June 30, 2007. The terms of the extended management agreement are essentially the same as the original agreement. On March 20, 2007 the management agreement was extended to June 30, 2012 under terms that are essentially the same as the original agreement. Under the current agreement, AGC is entitled to receive an annual management fee equal to a fixed amount (currently about \$143 thousand per year) plus 3% of the gross revenues derived from the operation of SCG&TC. The fixed portion of the management fee is adjusted annually for changes in the consumer price index. In addition, AGC receives an annual administration fee of an amount not to exceed \$55 thousand. In fiscal year 2008, the City paid a total of \$295 thousand under this contract.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
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**NOTE 7 – FAIRWAY GLEN DEVELOPMENT PROJECT AGREEMENTS**

**A. Disposition and Development Agreement (Original DDA)**

A Disposition and Development Agreement dated November 1, 1988, and First Implementation Agreement dated January 17, 1990, (collectively, the Original DDA) was entered into by SOSA and a private developer for the lease of land owned by SOSA and phased development of the Fairway Glen Development Project consisting of seven parcels (74.29 acres) of multifamily residential rental housing and two parcels (9.3 acres) for a commercial center.

In April 1994, subsequent to the lease of the first two residential parcels and the completion of construction of Bella Vista Apartment Community (Phase R-1) on those parcels, the developer exercised the option to terminate the Original DDA as to all remaining phases of development. SOSA and the developer entered into discussions relative to a limited development of the remaining parcels. The discussions resulted in the Agreement to Amend Ground Lease (See Note 7B) and a new Disposition and Development Agreement (New DDA) for the development of Parcels R-3 and R-4 (See Note 7C).

**B. Agreement to Amend Ground Lease**

The Agreement to Amend Ground Lease (Agreement to Amend) was entered into by SOSA and the developer in February 1996.

Concurrent with the Agreement to Amend, SOSA and the Agency entered into a Cooperation Agreement (Cooperation). Under the Cooperation, a Master Lease was executed for Parcel R-1. The execution of a Master Lease resulted in the conversion of the Ground Lease into a Sublease and the assignment of SOSA's interest as lessor under the Ground Lease to the Agency at the time of the recordation of the Amended Sublease.

As provided in the Agreement to Amend, the Agency as Sublessor and the developer as Sublessee have entered into an Amended Sublease (Sublease) for Parcel R-1. The Sublease transforms the existing unsubordinated Ground Lease from SOSA to developer into a rent-subordinated sublease from the Agency to developer. The terms of the Sublease are intended to permit the developer to obtain financing secured by its subleasehold interest in the Sublease and the Agency's interest in the Master Lease.

Under the Sublease, the Agency is entitled to a minimum rent of \$1,200 per net acre monthly, or \$27,054 per month. The minimum rent is subject to adjustment at amounts calculated at times specified in the Amended Sublease. The minimum rent was adjusted to \$41,805 per month starting July 2003 following the refinancing of the sublessee's interest in June 2003. The Agency is also entitled to additional rent calculated at a specified percentage of net operating income, operating cash flow, and as applicable, refinancing or sales proceeds. In fiscal year 2008, the Agency received \$502 thousand, \$164 thousand and \$121 thousand in minimum, percentage and participation rents respectively. All amounts received by the Agency under the agreement are paid to SOSA. The Sublease provides for a maximum term of 75 years from August 15, 1996 that includes two ten-year option terms.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
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**NOTE 7 – FAIRWAY GLEN DEVELOPMENT PROJECT AGREEMENTS (continued)**

**C. New Disposition and Development Agreement (New DDA)**

In January 1996, the Agency and the developer entered into a New Disposition and Development Agreement (New DDA). The New DDA provides for the execution and recordation of Master Leases for Parcels R-3 and R-4 between SOSA and the Agency and for the subleasing of Parcels R-3 and R-4 from the Agency by the developer. Under the New DDA, the Agency has ground subleased Parcels R-3 and R-4 and the Developer has constructed thereon 252 and 276 housing units respectively.

Under the terms of subleases, the Agency is entitled to a minimum rent payment of \$1,200 per net acre per month or \$11,945 per month for Nantucket (Parcel R-3) and \$12,970 per month for Carlyle (Parcel R-4). In addition, the Agency receives percentage and participation rents calculated in accordance with formulas specified in the subleases. Commencing with the rent payment of September 2005, the minimum rent for Parcel R-3 was adjusted to \$17,462 per month as a result of the refinancing of the sublessee's interest on the Nantucket Community in August 2005. Likewise, effective with the rent payment of May 2006, the minimum rent for Carlyle was adjusted to \$21,355 as a result of the refinancing of the sublessee's interest on the Carlyle Community in April 2006. In fiscal year 2008, the Agency received from Parcel R-3 sublease \$210 thousand and \$68 thousand in minimum and percentage rents respectively, and from Parcel R-4 sublease, \$256 thousand, \$130 thousand and \$75 thousand in minimum, percentage and participation rents respectively. All amounts received by the Agency under the foregoing agreements are paid to SOSA.

**D. SOSA Future Lease Revenues**

The following schedule summarizes the future minimum lease payments to be received by SOSA from the Fairway Glen development project (Note 7B & 7C) and from a separate lease agreement with a restaurant operator for a restaurant facility (David's) at the SCG&TC:

Fiscal Year Ending June 30	Fairway Glen Development Project			David's Restaurant	Total
	R-1 Bella Vista	R-3 Nantucket	R-4 Carlyle		
2009	\$ 501,660	\$ 209,544	\$ 256,260	\$ 54,000	\$ 1,021,464
2010	501,660	209,544	256,260	54,000	1,021,464
2011	501,660	209,544	256,260	54,000	1,021,464
2012	501,660	209,544	256,260	54,000	1,021,464
2013	501,660	209,544	256,260	18,000	985,464
Thereafter	19,146,690	8,067,444	10,442,595		37,656,729
Total	<u>\$ 21,654,990</u>	<u>\$ 9,115,164</u>	<u>\$ 11,723,895</u>	<u>\$ 234,000</u>	<u>\$ 42,728,049</u>

**CITY OF SANTA CLARA**  
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**June 30, 2008**

**NOTE 8 – CASH AND INVESTMENTS**

Cash and Cash Equivalents

The City pools cash from all sources and all funds except restricted cash and investments with fiscal agent. Allocable portions of the pooled portfolio for each fund type are reported under the captions "Pooled cash and investments" and "Cash designated for construction." Interest income earned on pooled cash and investments is allocated to various funds based on average cash balances of each fund unless there are specific legal or contractual requirements to do otherwise.

Total cash and investments of the City was \$718.7 million as of June 30, 2008. This amount includes the City's cash and cash equivalents of \$688.7 million, and cash and investments with fiscal agents of \$30 million.

Of the City's total cash and investments, the following shows the allocation as presented on the accompanying statement of net assets:

Pool cash and investment	\$ 674,535,284
Cash with fiscal agent	29,755,903
Total City cash and investments	<u>\$ 704,291,187</u>
Cash and investments in Fiduciary Funds (separate statement)	14,419,064
Total cash and investments	<u><u>\$ 718,710,251</u></u>

The City's cash and investments balances in governmental, enterprise, internal service funds, and agency funds were as follows:

	Governmental Funds	Proprietary Funds	Internal Service Funds	Agency Funds	Total
Pooled cash and investments	\$ 195,682,628	\$ 371,017,252	\$ 13,962,340	\$ 14,207,080	\$ 594,869,300
Cash designated for construction	87,025,917	2,320,643			89,346,560
Investments with fiscal agent - current	2,466	1,188,419	-	211,984	1,402,869
Investments with fiscal agent - noncurrent	17,247,263	8,427,852			25,675,115
Trust	2,974,631				2,974,631
Deposits		4,441,776			4,441,776
Total cash and investments	<u>\$ 302,932,905</u>	<u>\$ 387,395,942</u>	<u>\$ 13,962,340</u>	<u>\$ 14,419,064</u>	<u>\$ 718,710,251</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The City's investment strategy is to invest cash not required for current obligations in U. S. government securities, federal government agency securities, highly rated money market instruments and other investments in accordance with the City's investment policy for a maximum term of five years for the General Fund portfolio. The City Council has authorized the purchase of securities with maturities greater than five years, specifically for the Electric Cost Reduction Account. This strategy allows the City to

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 8 – CASH AND INVESTMENTS (Continued)**

minimize its exposure to credit, market, and liquidity risk while maintaining a reasonable return on its portfolio.

The City's investment policy, in compliance with the City of Santa Clara Charter, Article IX, Section 904 (d) and (h), and the California Government Code authorizes the City to invest in securities that are consistent with the City's cash management strategy and long-term goals and objectives. The City is authorized to invest in the following types of instruments, and the table also identifies certain provisions of the California Government Code, or the City's investment policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Agency Securities (A)	5 years	N/A	None	None
Negotiable Certificates of Deposit	5 years	N/A	30%	None
Bankers Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 days	A1 / P1	25%	10%
California Local Agency Investment Fund	N/A	N/A	None	\$40M Per A/C
Repurchase Agreements	1 year	N/A	None	None
Reverse Repurchase Agreements (requires City Council approval)	92 days	N/A	None	None
Tax Exempt Municipal Bonds (for yield restriction purposes)	5 years	N/A	None	None
Medium Term Corporate Notes	5 years	Top three ratings categories	15%	None
Mutual Funds	N/A	Top rating category	20%	10%
Investment Pools	N/A	Top rating category	20%	10%

(A) Securities issued by the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC)

**Investments Authorized by Debt Agreements**

The City invests bond proceeds designated for construction in instruments that are stated in the Investment Policy and in various return-guaranteed investment agreements. These investments are invested in accordance with bond indentures and the maturities of each investment should not exceed the final maturity of each bond. Bond proceeds investments are reported monthly to the City Council.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
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**NOTE 8 – CASH AND INVESTMENTS (Continued)**

The City also maintains required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code 53601 (L) allows these funds to be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, other agreements, or certificates of participation in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance. For disclosure purposes, debt proceeds that comply with this provision are listed as follows:

Description	Invested Amount	Nature of Funds	Invested With	Maturity	Credit Rating
RDA Tax Allocation Bonds Series 2003	\$ 27,285,974	Bond Proceeds	Dreyfus Family of Funds	None	AAA
RDA Tax Allocation Bonds Series 1999	\$ 56,143,228	Bond Proceeds	Fidelity Investments	None	AAA

RDA bond proceeds designated for construction projects are invested by the City. Electric Reserve Fund proceeds are held by the trustee as fiscal agent investments. All funds have been invested as permitted under the Code. These investments are usually scheduled to mature when cash is needed to fulfill the requirements of the underlying bond and trust agreements. All investment transactions received prior approval from the City's Director of Finance before they are executed.

Interest Rate and Credit Risks

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. To reduce interest rate risk, the City diversifies the portfolio into a wide range of investments with different maturities, maintains a reasonable average maturity of less than three years, and purchases callable bonds with only a one-time call feature. This approach significantly mitigates adverse market volatility and maximizes returns.

The average maturity of the City's pooled investment portfolio at June 30, 2008 was approximately 1.46 years and the City has the ability to and generally intends to hold all investments to maturity. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or call date, whichever is earlier.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's investment policy, or debt agreements and the actual rating as of June 30, 2008 for each investment type:

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
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**NOTE 8 – CASH AND INVESTMENTS (Continued)**

Type of Investment	Credit Rating	Maturity					Carrying Value
		Under 180 Days	181 - 365 Days	1 - 3 Years	3 - 5 Years	Over 5 Years	
<b>Pooled investments:</b>							
Cash	N/A	\$ (2,668,447)					\$ (2,668,447)
U.S. Treasury notes and bonds	AAA						
Federal Farm Credit Banks	AAA		30,659,875	6,132,188			36,792,063
Federal Home Loan Banks	AAA	27,050,625	18,322,500	114,272,188	21,173,438		180,818,750
Federal National Mortgage Association	AAA	111,271,434	19,939,375	12,300,000			143,510,809
Federal Home Loan Mortgage Corporation	AAA	72,101,586	9,028,068	8,203,694	8,975,393		98,308,741
Corporate notes	AAA			42,576,402	3,029,244		45,605,646
Corporate notes	AA		2,565,125	11,088,414	22,900,886		36,554,425
Commercial Papers	AAA						
Mutual fund - Fidelity	AAA	24,405,727					24,405,727
Mutual fund - Dreyfus	Not Rated	362,004					362,004
State Investment Pool	Not Rated	33,484,466					33,484,466
Total pooled investments in the City Treasury		266,007,395	80,514,943	194,572,886	56,078,961		597,174,183
<b>Debt &amp; Other investments:</b>							
Cash - JP Morgan (Cal PX Deposit)	AA	2,051,951					2,051,951
U.S. Treasury notes and bonds	AAA						
Federal Farm Credit Banks	AAA			154,359		25,344	179,703
Federal Home Loan Banks	AAA	101,188				124,950	226,138
Federal National Mortgage Association	AAA					49,844	49,844
Federal Home Loan Mortgage Corporation	AAA						
Corporate notes (Bentzien Trust)	AAA				100,430	48,265	148,695
Corporate notes (Bentzien Trust)	AA		149,004			249,339	398,343
Corporate notes (Bentzien Trust)	A	101,069	96,883	146,556			344,508
Corporate notes (Bentzien Trust)	Not Rated	148,276		22,750			171,026
Corporate stock (Bentzien Trust)	A	369,698					369,698
Corporate stock (Bentzien Trust)	B	226,924					226,924
Corporate stock (Bentzien Trust)	C	2,332					2,332
Corporate stock (Bentzien Trust)	Not Rated	281,044					281,044
Investment Agreements - AIG (Debt Res Fund)	AA				3,549,796		3,549,796
Investment Agreements - MBIA (Debt Res Fund)	A					5,011,569	5,011,569
Mutual fund - Fidelity (Debt Fund)	AAA	56,143,228					56,143,228
Mutual fund - Dreyfus (Debt Fund)	AAA	30,775,354					30,775,354
Mutual fund - Bank of New York (Debt Fund)	AAA	15,963,053					15,963,053
Mutual fund - Bank of New York (El Cpnstr Fund)	AAA	123,087					123,087
Mutual fund - Federated Prime (Bentzien Trust)	N/R	576,376					576,376
Mutual fund - U S Bank	N/R	211,984					211,984
Grizzly Escrow	AAA	2,389,827					2,389,827
State Investment Pool	Not Rated	2,341,588					2,341,588
Total non-city pooled investments		111,806,979	245,887	323,665	3,650,226	5,509,311	121,536,068
Total investments		\$ 377,814,374	\$ 80,760,830	\$ 194,896,551	\$ 59,729,187	\$ 5,509,311	\$718,710,251

Note. Maturity is based on call dates for callable notes.

Corporate stocks were purchased by external manager for the Bentzien Trust with the approval of the City Council.

**CITY OF SANTA CLARA**  
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**NOTE 8 – CASH AND INVESTMENTS (Continued)**

The City accounts for investments in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires governmental entities to report certain investments at fair value based on quoted market information obtained from recognized sources. The City has reported its investments at fair value with the exception of its share of external investment pools and mutual funds, the carrying value of which approximates fair value. In determining the change in fair value of its investments, the City used an aggregate method of calculation. The entire portfolio was valued at the beginning and end of the year and the change in fair value, net of purchases and maturities during the year, was reported as a \$1.7 million increase in investment earnings. The aggregate method resulted in a net decrease of 4.6% or \$33.4 million in the balance of the City's pooled cash investments as of June 30, 2008.

Concentration of Credit Risk

Investments in the securities of any individual issuers that represent 5% or more of total City-wide investments are shown in the table below:

Fund	Issuer	Bond-rating	Fair Value	Expiration	% of Holding
Pool	Federal Farm Credit Banks	AAA	\$ 36,971,766	N/A	5.1%
Pool	Federal Home Loan Banks	AAA	\$ 181,044,888	N/A	25.2%
Pool	Federal National Mortgage Association	AAA	\$ 143,560,653	N/A	20.0%
Pool	Federal Home Loan Mortgage Corporation	AAA	\$ 98,308,741	N/A	13.7%
Pool	GE CAP CORP MTN	AAA	\$ 45,605,646	9/13/10 to 10/19/12	6.3%
RDA	Fidelity Investment	AAA	\$ 56,143,228	N/A	7.8%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Under California Government Code Section 53651, depending on specific types of eligible securities, a bank must deposit eligible securities posted as collateral with its Agent having a fair value of 105% to 150% of the City's cash on deposit. All of the City's deposits are either insured by the Federal Depository Insurance Corporation (FDIC) or collateralized with pledged securities held in the trust department of the financial institutions.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

City has no deposits or investments that are not held in the manners described above.

**CITY OF SANTA CLARA**  
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**NOTE 8 – CASH AND INVESTMENTS (Continued)**

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City has no investments that are highly sensitive to interest rate fluctuations to a greater degree than already in the Interest Rate Risk Section above.

Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. The carrying value of LAIF approximates fair value.

**CITY OF SANTA CLARA**  
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**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES**

**A. Interfund Transfers**

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2008, were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred	
<b>General Fund</b>	General Fund	\$ 180,022	A
	Non-Major Governmental	1,203,658	B
	Redevelopment Agency	9,571,582	C
	Sports and Open Space Authority	2,891,592	D
<b>Non-Major Governmental</b>	General Fund	15,754,122	E
	Redevelopment Agency	1,200	F
	Non-Major Governmental	1,807,400	G
	Electric Utility	30,000	H
	Electric Utility	599,400	I
	Water Utility	69,100	I
	Sewer Utility	35,600	I
	Solid Waste	49,600	I
	Cemetery	2,900	I
<b>Internal Service Funds</b>	General Fund	40,000	J
	Electric Utility	120,300	J
	Water Utility	34,600	J
	Sewer	12,300	J
	Water Recycling	1,100	J
	Solid Waste	5,400	J
	Cemetery	4,600	J
	Technical Equipment Services	1,900	J
	Automotive Services	12,000	J
<b>Water Utility</b>	Water Recycling Utility	500,000	K
<b>Solid Waste</b>	General Fund	678,519	L
<b>Cemetery</b>	Non-Major Governmental	43,459	M
<b>Sports and Open Space Authority</b>	Santa Clara Golf and Tennis Club	1,286,513	N
<b>Santa Clara Convention Center</b>	General Fund	327,540	O
<b>Interfund Transfers</b>		<u>\$ 35,264,407</u>	

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (Continued)**

**The reasons for material transfers are set forth below:**

- (A) Transfer from General Contingency Reserve for Capital Projects to City Clerk's Office Contractual Services to cover Feb 5, 2008 referendum election for BAREC site.
- (B) Transfer to general fund from capital project funds to return unspent project funds
- (C) Transfer per the cooperation agreement between general fund and RDA.
- (D) Transfer per the cooperation agreement between general fund and SOSA and Santa Clara Convention Center
- (E) Transfer to fund various projects in the capital funds and pay debt service.
- (F) Transfer to fund housing projects included in the HUD Special Revenue Fund.
- (G) Transfer within funds from unallocated projects to specific projects.
- (H) Transfer to fund street tree planting and community activities
- (I) Transfer to fund their respective share of financial, human resources software, utility billing and other projects.
- (J) Transfer to fund workers' compensation claims and computer dispatch upgrades and technology improvements.
- (K) Transfer to fund Water Recycling Activities.
- (L) Transfer to Solid Waste subsidize operations.
- (M) Transfer of interest earned on Endowment Trust Funds
- (N) Transfer lease payments from American Golf, Interland, and others in accordance with the lease agreements.
- (O) Transfer to pay back monthly advances from City plus budget surplus/deficit.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (Continued)**

**B. Current Interfund Balances**

Current Interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of Interfund balances as of June 30, 2008.

Receivable Fund	Payable Fund	Amount
<b>General Fund</b>	Non-Major Governmental	\$ 1,492,592
	Santa Clara Convention Center	171,727
<b>Non-Major Governmental</b>	Internal Service Fund	14,072
	Receivable by Governmental Funds	<u>\$ 1,678,391</u>
<b>Electric Utility</b>	Internal Service Fund	\$ 1,720,005
<b>Water Utility</b>	Internal Service Fund	59,532
<b>Cemetery</b>	Internal Service Fund	157,913
<b>Sewer</b>	Internal Service Fund	314,575
<b>Solid Waste</b>	Internal Service Fund	945,947
	Receivable by Enterprise Funds	<u>\$ 3,197,972</u>
<b>Internal Service Fund</b>	Internal Service Fund	\$ 198,180
	Water Utility	76,120
	Receivable by Internal Service Funds	<u>\$ 274,300</u>

**Note:** The city uses due to/due from as a balancing mechanism in funds with positive cash balances.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 9 – INTERFUND TRANSACTIONS AND BALANCES (Continued)**

**C. Long-Term Interfund Advances**

At June 30, 2008 the funds below had made advances which were not expected to be repaid within the next year.

<u>Fund Receiving Advance</u>	<u>Fund Making Advance</u>	<u>Amount of Advance</u>
Redevelopment Agency	General Fund	\$ 8,447,325
Cemetery	General Fund	2,029,064
Santa Clara Golf & Tennis Club	General Fund	3,874,134
Total Advances		<u>\$ 14,350,523</u>

**Redevelopment Agency Fund** has a \$8,447,325 advance that bears interest which is based on the City's portfolio rate, and will be repaid to General Fund in annual installments after fulfilling the Agency's debt service, Capital projects and 20% housing set-aside transfer obligations.

**Cemetery Fund** has a \$2,029,064 advance that bears no interest and will be repaid when funds become available. The advance is a long term subsidy of operations pending mausoleum project funding in future years, which is expected to generate additional revenues.

**Santa Clara Golf and Tennis Club Fund** has a \$3,874,134 advance which does not bear interest, and will be repaid in annual installments after completion of capital improvements from income generated by these capital improvements.

**D. Internal Balances**

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 10 - CAPITAL ASSETS**

**A. Capital Assets Summary**

Capital Assets at June 30 comprise:

	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
<b>Governmental Activities</b>					
Non Depreciable Assets:					
Land	\$ 111,999,688	\$ 3,969,736	\$ -	\$ (2,487,534)	\$ 113,481,890
Construction In Progress	11,971,836	20,622,433	(4,399,619)	(23,136,104)	5,058,546
Total Non Depreciable Assets	123,971,524	24,592,169	(4,399,619)	(25,623,638)	118,540,436
Capital Assets being depreciated:					
Land Improvements	17,459,114	-	-	816,189	18,275,303
Buildings & Improvements	148,008,321	-	-	8,621,483	156,629,804
Machinery & Equipment	66,877,514	1,053,953	(5,919,962)	1,388,766	63,400,271
Infrastructure	401,453,634	9,599,797	-	7,116,282	418,169,713
Total Capital Assets being depreciated	633,798,583	10,653,750	(5,919,962)	17,942,720	656,475,091
Less accumulated depreciation for:					
Land Improvements	(4,437,048)	(789,214)	-	-	(5,226,262)
Buildings & Improvements	(21,077,921)	(3,153,038)	-	-	(24,230,959)
Machinery & Equipment	(39,482,776)	(5,529,836)	4,125,773	-	(40,886,839)
Infrastructure	(141,287,742)	(11,091,217)	-	-	(152,378,959)
Total accumulated depreciation	(206,285,487)	(20,563,305)	4,125,773	-	(222,723,019)
Net Depreciable Assets	427,513,096	(9,909,555)	(1,794,189)	17,942,720	433,752,072
Governmental Activity Net Capital Assets	\$ 551,484,620	\$ 14,682,614	\$ (6,193,808)	\$ (7,680,918)	\$ 552,292,508
<b>Business-Type Activities</b>					
Non Depreciable Assets:					
Land & Improvements	\$ 16,083,721	\$ -	\$ -	\$ 3,875,914	\$ 19,959,635
Construction In Progress	4,673,844	21,699,024	-	(10,648,339)	15,724,529
Total Non Depreciable Assets	20,757,565	21,699,024	-	(6,772,425)	35,684,164
Capital Assets being depreciated:					
Buildings & Improvements	832,393,225	85,977	-	13,090,190	845,569,392
Machinery & Equipment	15,013,132	142,118	(374,641)	1,363,153	16,143,762
Total Capital Assets being depreciated	847,406,357	228,095	(374,641)	14,453,343	861,713,154
Less accumulated depreciation for:					
Buildings & Improvements	(318,318,331)	(19,344,560)	-	-	(337,662,891)
Machinery & Equipment	(11,705,837)	(905,969)	374,641	-	(12,237,165)
Total accumulated depreciation	(330,024,168)	(20,250,529)	374,641	-	(349,900,056)
Net Depreciable Assets	517,382,189	(20,022,434)	-	14,453,343	511,813,098
Enterprise Activity Net Capital Assets	\$ 538,139,754	\$ 1,676,590	\$ -	\$ 7,680,918	\$ 547,497,262

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 10 – CAPITAL ASSETS (Continued)**

Construction in progress for governmental activities as of June 30, 2008, consisted of the following projects:

<u>Government Projects</u>	<u>Authorized</u>	<u>Expended</u>	<u>Future Commitments</u>
Transportation Improvements	\$ 6,491,641	\$ 807,966	\$ 5,683,675
Technology Application & Implementation Projects	1,223,254	642,235	581,019
Redevelopment Agency Projects	46,730,605	1,714,897	45,015,708
City Building Improvements	8,665,062	1,478,879	7,186,183
Parks and Recreation Facilities Improvement	<u>1,350,000</u>	<u>414,569</u>	<u>935,431</u>
	<u>\$ 64,460,562</u>	<u>\$ 5,058,546</u>	<u>\$ 59,402,016</u>

Construction in progress for business-type activities as of June 30, 2008, consisted of the following:

<u>Enterprise Fund Projects</u>	<u>Authorized</u>	<u>Expended</u>	<u>Future Commitments</u>
Electric Projects	\$ 16,835,117	\$ 3,796,643	\$ 13,038,474
Water/Sewer/Solid Waste Projects	2,689,961	2,158,088	531,873
Santa Clara Convention Center Projects	<u>39,554,898</u>	<u>9,769,798</u>	<u>29,785,100</u>
	<u>\$ 59,079,976</u>	<u>\$ 15,724,529</u>	<u>\$ 43,355,447</u>

Details of these projects are available from the City on request.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 10 – CAPITAL ASSETS (Continued)**

**B. Depreciation Allocation**

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities:

General Administration	\$ 2,691,303
City Clerk	1,395
City Attorney	423
Human Resources	7,006
Finance	116,352
Public Works	11,750,181
Parks and Recreation	1,394,761
Public Safety	
Police*	1,229,919
Fire	689,221
Planning & Inspection	172,047
Library	<u>1,125,911</u>
Subtotal	19,178,519

Capital assets held by the City's Internal Service

Funds are charged to the various functions based on their usage of the assets

1,384,786

Total Governmental Activities	\$ <u>20,563,305</u>
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Business-type Activities

Utility Funds:

Electric Utility	\$ 16,347,676
Water Utility	987,391
Sewer Utility	456,540
Solid Waste	18,566
Cemetery	36,876
Santa Clara Golf and Tennis Club	810,823
Santa Clara Convention Center	<u>1,592,657</u>

Total Business-type Activities	\$ <u>20,250,529</u>
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\* As of the beginning of Fiscal Year 2005-2006, the Communication Department was incorporated into the Police Department

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 11 – LONG-TERM OBLIGATIONS**

**As of June 30, 2008, outstanding long-term obligations consisted of the following:**

<u>Type of Indebtedness</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rates</u>
Governmental Activity Debt:			
General Long Term Debt:			
Special Assessment Bonds With City Commitment	12/1/1998	9/2/2011	5.00-5.20
1997 Certificates of Participation	7/1/1997	8/1/2022	4.5-5.375
2002A Certificates of Participation	11/14/2002	2/1/2032	3.00-5.00
2002B Certificates of Participation	11/14/2002	2/1/2014	3.00-4.50
Redevelopment Agency Obligations:			
Bayshore North Project 1992 TA and Refunding Bonds	10/22/1992	7/1/2014	7.00
Bayshore North Project-1999 TA Bonds Series A	8/1/1999	6/1/2023	5.25-5.50
Bayshore North Project-1999 TA Bonds Series B	8/1/1999	6/1/2017	5.25-5.50
Bayshore North Project-2002 TA Refunding Bonds	6/6/2002	6/1/2014	4.00-5.50
Bayshore North Project-2003 TA Bonds	5/14/2003	6/1/2023	5.00
Internal Service Long Term Debt:			
Insurance Funding Bonds-Series 1987	4/13/1987	4/1/2012	3.00
Business Type Activity Debt:			
Enterprise Long Term Debt:			
Electric Utility:			
1985 Series A Revenue Bonds	8/1/1985	7/1/2010	Variable
1985 Series B Revenue Bonds	8/1/1985	7/1/2010	Variable
1985 Series C Revenue Bonds	8/1/1985	7/1/2010	Variable
1991 Series B Revenue Refunding Bonds	1/28/1992	7/1/2010	5.20-6.35
1998 Series A Revenue Bonds	3/1/1998	7/1/2027	4.5-5.25
2003 Series A Revenue Bonds	10/9/2003	7/1/2028	2.50-5.25
2003 Series B Revenue Bonds	10/9/2003	7/1/2034	Variable
2008 Series A Revenue Bonds	4/23/2008	7/1/2034	Variable
2008 Series B Revenue Bonds	5/29/2008	7/1/2027	Variable
Less Unamortized Discount			
Total of Electric Utility Revenue Bonds			
Water Recycling Utility:			
State Water Resource Control Board Loan	1/9/1989	1/22/2009	4.0128
Subtotal Business-type Activity Debt			
Total Long-Term Obligations			

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 11 – LONG-TERM OBLIGATIONS**

As of June 30, 2008, outstanding long-term obligations consisted of the following:

<u>Type of Indebtedness</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rates</u>
Governmental Activity Debt:			
General Long Term Debt:			
Special Assessment Bonds With City Commitment	12/1/1998	9/2/2011	5.00-5.20
1997 Certificates of Participation	7/1/1997	8/1/2022	4.5-5.375
2002A Certificates of Participation	11/14/2002	2/1/2032	3.00-5.00
2002B Certificates of Participation	11/14/2002	2/1/2014	3.00-4.50
Redevelopment Agency Obligations:			
Bayshore North Project 1992 TA and Refunding Bonds	10/22/1992	7/1/2014	7.00
Bayshore North Project-1999 TA Bonds Series A	8/1/1999	6/1/2023	5.25-5.50
Bayshore North Project-1999 TA Bonds Series B	8/1/1999	6/1/2017	5.25-5.50
Bayshore North Project-2002 TA Refunding Bonds	6/6/2002	6/1/2014	4.00-5.50
Bayshore North Project-2003 TA Bonds	5/14/2003	6/1/2023	5.00
Internal Service Long Term Debt:			
Insurance Funding Bonds-Series 1987	4/13/1987	4/1/2012	3.00
Business Type Activity Debt:			
Enterprise Long Term Debt:			
Electric Utility:			
1985 Series A Revenue Bonds	8/1/1985	7/1/2010	Variable
1985 Series B Revenue Bonds	8/1/1985	7/1/2010	Variable
1985 Series C Revenue Bonds	8/1/1985	7/1/2010	Variable
1991 Series B Revenue Refunding Bonds	1/28/1992	7/1/2010	5.20-6.35
1998 Series A Revenue Bonds	3/1/1998	7/1/2027	4.5-5.25
2003 Series A Revenue Bonds	10/9/2003	7/1/2028	2.50-5.25
2003 Series B Revenue Bonds	10/9/2003	7/1/2034	Variable
2008 Series A Revenue Bonds	4/23/2008	7/1/2034	Variable
2008 Series B Revenue Bonds	5/29/2008	7/1/2027	Variable
Less Unamortized Discount			
Total of Electric Utility Revenue Bonds			
Water Recycling Utility:			
State Water Resource Control Board Loan	1/9/1989	1/22/2009	4.0128
Subtotal Business-type Activity Debt			
Total Long-Term Obligations			

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

**A. City's Long-term Obligations**

Special Assessment Bonds with City Commitment

On December 1, 1998, the City completed the sale of the Santa Clara Convention Center Complex Improvement Project Reassessment District No. 186 Series 1998 Bonds (SCCC 1998 Bonds) having a par value of \$10.33 million. The SCCC 1998 Bonds were issued to refund the Santa Clara Convention Center Complex Improvement Project Reassessment District No. 183 Series 1985 Bonds totaling \$10.34 million. The Reassessment Bonds consist of \$3.63 million of serial bonds maturing from 2000 to 2005; \$4.55 million of term bonds maturing from 2006 to 2010; and \$2.16 million of term bonds maturing from 2011 to 2012. The District consists of two parcels, both owned by the Redevelopment Agency of the City of Santa Clara and subject to ground leases. Debt service on the SCCC 1998 Bonds is primarily payable from annual installments of unpaid reassessments. Special assessment bonds are collateralized by liens against the properties benefited and debt service payments on each issue are made from assessments included on the County tax roll. The City is entitled to recover any delinquent payments either from the property owner or from the proceeds of a foreclosure sale.

With the exception of the SCCC 1998 Bonds, the City has no duty to transfer into the redemption fund the amount of the delinquency out of available funds of the City, other than from the reserve fund. Therefore, special assessment bonds other than the SCCC 1998 Bonds are reported under Agency Fund in the financial statements because they are not considered as the City's long-term obligations.

1997 Police Administration Building Project Certificates of Participation

On May 19, 1997, the City Council established the Santa Clara Public Facilities Financing Corporation (PFFC). The PFFC was the issuing agency for the 1997 Police Administration Building Project Certificates of Participation (1997 COP). In July 1997, the PFFC, issued a \$16.05 million 25-year COP. The issue consists of \$11.73 million of serial bonds maturing from 2000 to 2018 and \$4.32 million of term bonds maturing in 2022. Debt service on the 1997 COP is secured by lease payments to be made by the City to the PFFC for the use of the Police Administration Building site. The PFFC assigns lease payments to the certificate-holders.

2002 Certificates of Participation, Series A Bonds

On November 14, 2002, the City's PFFC issued \$25.03 million of the 2002 Certificates of Participation, Series A Bonds (2002A COP). Proceeds of the 2002A COP were used to construct the City's Central Park Library. The 2002A COP matures serially in years 2004 through 2032, and bear interest at 3.0% to 5.0%. Debt service on the 2002A COP is secured by lease payments to be made by the City to the PFFC for the use of the library. The PFFC assigns the lease payments to the certificate owners.

2002 Certificates of Participation, Series B Bonds

On November 14, 2002, the City's Sports and Open Space Authority (SOSA) issued \$33.51 million of the 2002 Certificates of Participation, Series B Bonds (2002B COP). Proceeds of the 2002B COP were used to redeem outstanding balances of the LGFA Bonds and the 1993 COP. The 2002B COP matures serially

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

in years 2003 through 2014, and bear interest at 3.0% to 4.5%. Debt service on the 2002B COP is secured by lease payments between the City and SOSA for the use of the golf course property and related facilities. SOSA assigns the lease payments to the certificate owners.

Compliance

Various debt agreements governing the City's bonds contain a number of covenants, including continuing disclosure requirements. The City is in compliance with these specific covenants and all other material covenants governing the particular bond issues. No event or default as defined in the bond indentures has occurred or is occurring.

**B. Redevelopment Agency Long-term Obligations**

Bayshore North Project 1992 Tax Allocation Refunding Bonds

On October 22, 1992, the Agency issued \$74.24 million of the Bayshore North Project 1992 Tax Allocation Refunding Bonds 1992 Bonds (RDA 1992 Bonds). Proceeds of the RDA 1992 Bonds along with other available funds were deposited into two escrow funds. These escrow funds were used to advance refund a portion of the RDA 1987 Bonds and the RDA 1988A Bonds, and to reimburse the City for lease payments made by the City with respect to the RDA 1986 Refunding Certificates of Participation (Santa Clara Convention Center). The advance refunded portion of the RDA 1988 Bonds was retired on June 1, 1998. On June 6, 2002 the City exercised its option to redeem \$34.29 million of the RDA 1992 Bonds using proceeds of the Bayshore North Project 2002 Tax Allocation Refunding Bonds (RDA 2002 Bonds). The redemption price was \$102. Debt service on the RDA 1992 Bonds is secured by tax increment revenue of the Agency.

Bayshore North Project 1999 Tax Allocation Bonds, Series A

On August 1, 1999, the Agency issued \$31.55 million of Bayshore North Project 1999 Tax Allocation Bonds, Series A (RDA 1999A Bonds) to partially fund the construction of a multi-story parking garage and a soccer park. The garage is located in the vicinity of the Great America Theme Park and the Santa Clara Convention Center Complex and the soccer park is located near Tasman Drive. The RDA 1999A Bonds mature serially in years 2017 through 2019, with final maturity in year 2023. The bonds are subject to mandatory sinking fund redemption between 2020 and 2023 and optional redemption is available beginning June 1, 2009. The RDA 1999A Bonds bear interest rates between 5.25% and 5.50%. The bonds are insured by the Ambac Assurance Corporation. Debt service of the RDA 1999A Bonds is funded by the Agency's tax increment revenues.

Bayshore North Project 1999 Tax Allocation Bonds, Series B

On August 1, 1999, the Agency issued \$16.91 million of Bayshore North Project 1999 Tax Allocation Bonds, Series B, (RDA 1999B Bonds) to partially fund the construction of the multi-story parking garage that was also funded by the RDA 1999A Bonds. The RDA 1999B Bonds mature serially in years 2011 through 2017. Optional redemption by the City is available beginning June 1, 2009. The RDA 1999B

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

Bonds bear interest rates between 5.25% and 5.50%. The Bonds are insured by the Ambac Assurance Corporation. Debt service of the RDA 1999A Bonds is funded by the Agency's tax increment revenues.

Bayshore North Project 2002 Tax Allocation Bonds

On June 6, 2002, the Agency issued \$33.91 million of Bayshore North Project 2002 Tax Allocation Bonds (2002 Bonds), with an effective interest rate ranging from 4.0% to 5.5% for a term of 12 years. The proceeds of the 2002 Bonds were used to retire a portion of 1992 Bonds. Debt service for the bonds is funded from property taxes levied against the property owners.

Bayshore North Project 2003 Tax Allocation Bonds

On May 14, 2003, the Agency issued \$43.96 million of Bayshore North Project 2003 Tax Allocation Bonds (RDA2003 Bonds) to fund various Agency projects. The RDA2003 Bonds mature serially in years 2015 through 2023, and bear interest at 5.0%. The Bonds are insured by the MBIA Insurance Corporation. Debt service of the RDA2003 Bonds is funded by the Agency's tax increment revenues.

Compliance

Various debt agreements governing the Agency's bonds contain a number of covenants, including continuing disclosure requirements. The Agency is in compliance with these specific covenants and all other material covenants governing the particular bond issues. No event of default as defined in the bond indentures has occurred or is occurring.

C. Internal Service Fund Obligations

The Insurance Funding Bonds, Series 1987 (Insurance Bonds) are special obligations of the City payable from the proceeds of the Insurance Bonds. The proceeds were placed in an insurance fund and invested solely in federal securities sufficient to pay interest and principal. The purpose of the Insurance Bonds is to pay monetary damages of \$100,000 or more when a court of competent jurisdiction enters judgment against the City. In the event the City withdraws all or a portion of the amount on deposit in the insurance fund to pay a judgment, a principal amount of Insurance Bonds equal to such withdrawal will be converted to general obligation bonds. The Insurance Bonds are subject to mandatory purchase and remarketing on April 1 every three years. On April 1, 2008, the Insurance Bonds were fully redeemed using proceeds from the Liability Self-Insurance Fund.

D. Enterprise Funds

**Electric Utility**

1985 Floating Rate Electric Revenue Bonds, Series A, B and C

The City's 1985 Floating Rate Electric Revenue Bonds, Series A, B and C (1985 Series A, B and C Bonds) amounting to \$25 million, \$25 million, and \$28.3 million, respectively, were issued to provide for

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

the redemption of the 1984 Series B Electric Revenue Bonds. They bear interest at an adjustable rate, which is determined weekly. The 1985 A, B and C Bonds may be tendered by the holders for purchase at a price equal to 100% of the principal amount of any bond tendered, plus accrued and unpaid interest. Bonds tendered for purchase will be remarketed and the proceeds of the remarketing will be used to pay the purchase price of the tendered bonds. To provide funds to pay the purchase price of any tendered bonds, which were unable to be marketed, the City initially obtained an irrevocable letter of credit from National Westminster Bank, PLC. In August 1999, the letter of credit was replaced with a Municipal Bond Insurance Policy issued by Ambac Assurance Corporation and a standby Bond Purchase Agreement with JPMorgan Chase. Debt service on the 1985 Series A, B and C Bonds is payable from the annual revenues of the Electric Utility Enterprise Fund. On April 1, 2008 the 1985 Series A, B and C Bonds were fully redeemed.

1991 Series B Electric Revenue Refunding Bonds

In January 1992, the City issued \$23.19 million 1991 Series B Electric Revenue Refunding Bonds (Electric 1991B Bonds), net of \$601 thousand in original issue discount. \$2.56 million of the Electric 1991B Bonds were issued as discount capital appreciation bonds (CAB), which gradually increase in value until maturity. On July 1, 2002, the City exercised the option to redeem \$10.32 million of the Electric 1991B Bonds. The final portion of the Electric 1991B Bonds CAB matured in July 2007.

Subordinated Electric Revenue Refunding Bonds, 1998 Series A

On March 1, 1998, the City issued \$89.28 million of the 1998 Subordinated Electric Revenue Refunding Series A Bonds (Electric 1998A Bonds). The Bonds mature annually in serial amounts from July 1, 1998 to July 1, 2027 and bear coupon rates ranging from 4.50% to 5.25%. Debt service payment is secured by a pledge of net revenues of the Electric Utility Enterprise Fund. On July 1, 2008 \$80.53 million of the Electric 1998A Bonds were redeemed using proceeds from Subordinated Electric Revenue Refunding Bonds, 2008 Series B. Balance of \$2.64 million of the Electric 1998A Bonds will be redeemed according to its original schedule. Since the \$80.53 million is In-Substance Defeased, the amount is excluded from City's debt outstanding.

Subordinated Electric Revenue Refunding Bonds, 2003 Series A

On October 9, 2003, Silicon Valley Power issued \$100 million of the Subordinated Electric Revenue Bonds, Series 2003A (Electric 2003A Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003A Bonds mature annually in serial amounts from July 1, 2005 to July 1, 2025 with the final Term Bond maturity of July 1, 2028 and bear coupon rates ranging from 2.50% to 5.25%. Debt service on the 2003A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Subordinated Electric Revenue Refunding Bonds, 2003 Series B

On October 9, 2003, Silicon Valley Power issued \$50 million of the Subordinated Electric Revenue Bonds, Series 2003B (Electric 2003B Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. Debt

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

service on the 2003B Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund. The Electric 2003B Bonds were redeemed on April 28, 2008 using proceeds from Subordinated Electric Revenue Refunding Bonds, 2008 Series A.

Subordinated Electric Revenue Refunding Bonds, 2008 Series A

On April 23, 2008, Silicon Valley Power issued \$49.66 million of the Subordinated Electric Revenue Bonds, Series 2008A (Electric 2008A Bonds) to refinance the Electric 2003B Bonds on April 28, 2008. The Electric 2008A Bonds mature annually in serial amounts from July 1, 2028 to July 1, 2034. The Electric 2008A Bonds are multi-modal bonds that are authorized to be issued in variable mode. Initially, the Electric 2008A Bonds were issued in the Daily Mode. Payment of the principal of and interest on, and purchase price of, the Electric 2008A Bonds are made from proceeds of draws on the Letter of Credit provided by Bank of America. Debt service on the 2008A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

Subordinated Electric Revenue Refunding Bonds, 2008 Series B

On May 29, 2008, Silicon Valley Power issued \$86.6 million of the Subordinated Electric Revenue Bonds, Series 2008B (Electric 2008B Bonds) to refinance \$80.53 million of the Electric 1998A Bonds on July 1, 2008. The Electric 2008A Bonds mature annually in serial amounts from July 1, 2009 to July 1, 2027. The Electric 2008B Bonds are multi-modal bonds that are authorized to be issued in variable mode. Initially, the Electric 2008A Bonds were issued in the Weekly Mode. Payment of the principal of and interest on, and purchase price of, the Electric 2008A Bonds are made from proceeds of draws on the Letter of Credit provided by Dexia Credit Local. Debt service on the 2008A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

**Water Recycling Utility**

The State Water Resource Control Board Loan was issued for the design and construction of pumping facilities and a pipeline to deliver reclaimed water to the City's golf course. Debt service on the loan is payable from the annual revenues of the Water Recycling Utility Enterprise Fund.

Compliance

Various debt agreements governing the Enterprise Funds' revenue bonds contain a number of covenants, including those that require the City to maintain and preserve the respective enterprise in good repair and working order, to maintain certain levels of insurance and to fix and collect rates, fees and charges so as to maintain certain debt coverage ratios. The City is in compliance with these specific covenants and all other material covenants governing the particular revenue bond issues. No event of default as defined in the bond indentures has occurred or is occurring.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

**E. Repayment Requirements**

As of June 30, 2008, the debt service requirements to maturity for the City's and the Agency's long-term obligations and the funds from which payment will be made are as follows:

For the Year Ending June 30	Government Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 10,000,000	\$ 9,620,661	\$ 3,615,329	\$ 8,435,074
2010	10,555,000	9,047,030	4,220,000	8,277,694
2011	17,635,000	8,428,543	4,425,000	8,126,619
2012	12,110,000	7,710,550	6,255,000	7,925,144
2013	11,465,000	7,210,540	6,560,000	7,706,569
2014-2018	55,365,000	27,068,043	38,160,000	34,629,416
2019-2023	62,215,000	12,866,291	49,420,000	26,041,907
2024-2028	5,835,000	2,356,250	62,920,000	14,835,900
2029-2033	5,810,000	743,750	37,785,000	5,164,725
2034-2035	-	-	17,645,000	270,600
	<u>\$ 190,990,000</u>	<u>\$ 85,051,657</u>	<u>\$ 231,005,329</u>	<u>\$ 121,413,648</u>

**Reconciliation of Long-term Obligations**

Principal outstanding as reported above	421,995,329
Deduct Unamortized discount - Electric Revenue Bonds	(7,862,563)
Total Long-term Obligations	<u>\$ 414,132,766</u>

**F. Defeasances**

The following is a summary of the refunding issues, the issues defeased, and the remaining principal balance of the defeased debt for the City as of June 30, 2008:

Issue Defeased	Interest Rates on Defeased Issue	Originally Defeased	Balance Outstanding on Defeased Bonds	Refunding Issue
Bayshore North 1992 Tax Allocation & Refunding Bonds	5.75%	\$ 34,290,000	\$ 21,860,000	Bayshore North 2002 Tax Allocation & Refunding Bonds
Subordinate Electric Revenue Bonds Series 1998A	4.50%-5.25%	80,530,000	80,530,000	Subordinate Electric Revenue Bonds Series 2008B
Total Defeased Bonds		<u>\$ 114,820,000</u>	<u>\$ 102,390,000</u>	

**CITY OF SANTA CLARA**  
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**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

The proceeds from the above refunding issues are placed in irrevocable escrow accounts overseen by independent bank fiscal agents. These proceeds are generally invested in U. S. Treasury Securities, which together with earned interest, will provide amounts sufficient for future payment of interest, principal, and redemption premium on the defeased bonds. These escrow accounts are not included as assets of the City. The defeased bonds are excluded from the City's long-term obligations because the arrangement satisfies legal requirements of defeasance.

**G. Debt Limitations and Restrictions**

The amounts of the City's legal debt limit and debt margin (as defined by Section 1309 of the City Charter) as of June 30, 2008, are \$3.32 billion and \$3.32 billion respectively. There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations, covenants and restrictions.

**H. Arbitrage**

According to the regulations set forth by the U. S. Treasury Department, for bond issues subject to arbitrage rebate, earnings in excess of the stated bond rate must be rebated to the federal government every five years. As of June 30, 2008, the City has fifteen outstanding bond issues that are subject to the arbitrage rebate regulations. The City monitors the earnings on each of these issues and records any accrued rebate liability at the end of each individual bond year.

**I. Special Assessment Debt Without City Commitment**

Special assessment districts have been established in various parts of the City to provide improvements to properties located in those districts. Properties are assessed for the cost of the improvements; these assessments are payable solely by the property owners over the term of the debt issued to finance the improvements. With the exception of the Santa Clara Convention Center Improvement Project No. 186, the City is not legally obligated to pay these debts or be the purchaser of last resort of foreclosed properties in the special assessment districts. Nor is it obligated to advance available City funds to repay this debt in the event of default by any of these districts. At June 30, 2008, the balance of these districts' outstanding debt was as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding 6/30/08
			Annual Amount	Fiscal Years ended	
Mill Creek - District No. 1	1995	7.01%-7.12%	\$ 265,000-365,000	1998-2011	\$ 1,325,000
Traffic Mitigation District 1988-1					
Division No. 2	1996	5.90%	285,000-380,000	1998-2012	1,700,000
Mission College/Mercado No. 187	1998	7.00%	490,000-600,000	1999-2011	2,230,000
					<u>\$ 5,255,000</u>

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 11 – LONG-TERM OBLIGATIONS (Continued)**

The City recognizes an obligation to transfer funds from its available funds to cover any delinquency in the assessments for the Santa Clara Convention Center Improvement Project No. 186, primarily because the City owns the land upon which the improvements were made.

**NOTE 12 - SOLID WASTE LANDFILL CLOSURE**

At June 30, 2008, the balance of the Solid Waste Landfill Postclosure Obligation was as follows:

<u>Type of Indebtedness</u>	<u>Outstanding as of June 30, 2007</u>	<u>Reduction</u>	<u>Outstanding as of June 30, 2008</u>	<u>Current Portion</u>
Solid Waste				
Landfill Postclosure Obligation	\$ 4,882,417	\$ 414,717	\$ 4,467,754	\$ 405,000

The City of Santa Clara All Purpose Landfill (Landfill) was closed in September 1993. Federal and state laws and regulations require closure activities such as removal of landfill structures, decommissioning of environmental control systems, site security, and final cover construction and postclosure care such as ongoing monitoring of environmental impact. The City's postclosure plan (Plan) accepted by the California Integrated Waste Management Board (CIWMB) addresses all the attendant issues. Based on the Plan and pertaining laws and regulations, an estimated Landfill Postclosure Care Cost Obligation is recorded and updated annually. The postclosure care liability is accrued in the Solid Waste Enterprise Fund in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. As of June 30, 2008, the estimated liability totaled \$4.47 million. This obligation is payable from solid waste user fees and any related subsidy from the General Fund.

The City also has a Pledge of Revenue Agreement establishing financial assurance for postclosure maintenance of the Landfill with the CIWMB. As of June 30, 2008, the total pledge amount is \$681 thousand. This amount is reviewed annually and updated for the increase in the San Francisco Bay Region Consumer Price Index.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES**

**A. Investments in Joint Venture**

The City participates in significant joint ventures: Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC), M-S-R Public Power Agency (MSR) and Silicon Valley Animal Control Authority (SVACA).

The separately issued financial statements of these joint ventures (as noted below) are available on request.

	NCPA	TANC	SJSC	MSR	SVACA
Date of latest audited financial statement	6/30/07	6/30/07	6/30/07	12/31/07	6/30/07
Participant's address	180 Cirby Way Roseville, CA 95678	P.O. Box 15129 Sacramento, CA 95851	200 E. Santa Clara St. San Jose, CA 95113	P.O. Box 4060 Modesto, CA 95352	2324 Walsh Ave. Santa Clara, CA 95051

The City's basic financial statements reflect the following investments in joint ventures as of June 30, 2008:

	NCPA	TANC	SJSC	MSR	SVACA
Participating percentage	38.6%	20.7%	16.1%	35.0%	73.7%
Investment	\$17,671,307	\$623,793	\$89,617,170	0	\$5,624,624
Method of accounting	Equity	Equity	Equity	Equity	Equity

**B. Contingent Liability**

Under the terms of the various joint venture agreements, the City is contingently liable for a portion of the long-term debt of the entities under take-or-pay agreements, letters of credit, guarantees or other similar agreements. Based on the most recent audited financial statements of the individual joint ventures, the City was contingently liable for long-term debt as follows (in thousands):

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)**

	Total Debt	City's Participating Share	City's Contingent Liability
TANC	\$ 346,632	20.7%	\$ 71,753
NCPA	628,183	38.6%	242,479
SJSC	45,586	16.1%	7,348
MSR	396,180	35.0%	138,663
Total	<u>\$ 1,416,581</u>		<u>\$ 460,243</u>

In addition, the City would, under certain conditions, be liable to pay a portion of the costs associated with the operations of the entities. Under certain circumstances, such as default or bankruptcy of the other participants, the City may also be liable to pay a portion of the debt of these joint ventures on behalf of those participants and seek reimbursement from those participants.

**C. Northern California Power Agency (NCPA)**

NCPA was formed in 1968 as a joint powers agency in the State of California. Its membership consists of eleven cities with publicly owned electric utility distribution systems, one irrigation district, one public utility district, one port authority, one transit district, and two other associate member entities. NCPA is generally empowered to purchase, generate, transmit, distribute and sell electrical energy. Members participate in the projects of NCPA on an elective basis. Therefore, the participation percentage varies for each project in which it participates.

A Commission comprised of one representative for each member governs NCPA. The Commission is responsible for the general management of the affairs, property, and business of NCPA. Under the direction of the General Manager, the staff of NCPA is responsible for providing various administrative, operating and planning services for NCPA and its associated power corporations.

Project Financing and Construction

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction or curtailment of output from the project for any reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

Hydroelectric Project

NCPA contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District (CCWD). In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA also has an option to purchase power from the project in excess of the CCWD's requirements for the subsequent 50 years, subject to regulatory approval.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)**

Geothermal Project

The NCPA Geothermal Plants have historically experienced greater than anticipated declines in steam production from the existing geothermal wells. Although initially operated as baseload generation projects at full capability (238MW), by 1988 NCPA changed its steam field production from baseload to load-following and reduced average annual steam production. Despite the implementation of operating strategies to further reduce the rate of decline in steam production, including the construction of an effluent pipeline from a neighboring sanitation district, and modifications to the steam turbines and associated steam collection system, the average annual generation for 2007 was 123 MW gross.

Based upon current operation protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease further, reaching approximately 117 MW by the year 2010 and remaining in excess of 73 MWG through 2031, the end of the study period.

Combustion Turbine Project No. 1

NCPA owns five dual (natural gas and fuel oil) combustion turbine units, each of which is nominally rated at 25 MW, which are collectively known as the Combustion Turbine Project No. 1. These units were completed in 1986 and are designed to provide peak power and reserve requirements and emergency support. Each purchaser is responsible under its power sales contract for paying entitlement share in Combustion Turbine Project No. 1 of all NCPA's costs of such project.

**D. Transmission Agency of Northern California (TANC)**

TANC was organized under the California Government Code pursuant to a joint powers agreement entered into by 15 Northern California utilities. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to plan, acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or from user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro-rata share of the costs to operate TANC and for payment of debt service, and has the right to participate in future project agreements.

The joint powers agreement remains in effect until all debt obligations and interest thereon have been paid, unless otherwise extended by the members.

California-Oregon Transmission Project

TANC is a participant and also the Project Manager of the California-Oregon Transmission Project (Project), a 339-mile long, 500-kilovolt alternating current transmission project between Southern Oregon and Central California. As Project Manager, TANC is responsible for the overall direction and coordination of all Project operations and maintenance, additions and betterments, and for general and administrative support.

The Project was declared commercially operable on March 24, 1993, with a rated transfer capability of 1,600 megawatts and provides a third transmission path between the electric systems of the Pacific Northwest and those in California. The Project has successfully met and completed the major environmental requirements. As of June 30, 2007, the most recent data available, TANC's investment in the Project was \$452.1 million, less accumulated depreciation and amortization of \$145.1 million.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
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**NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)**

In connection with its participation in the Project, TANC has an entitlement balance of the Project's transfer capability of approximately 1,242 megawatts and is obligated to pay an average of approximately 73% of the operating costs associated with the Project. TANC incurred and initially capitalized all costs for project construction since they were expected to be recovered through reimbursement from Project participants and from the successful operations of the Project's transmission lines. The Project agreement among the participating members provides that each member agrees to make payments, from its revenues, to TANC for project costs incurred and for payment of debt service.

**E. San Jose-Santa Clara Water Pollution Control Plant and Clean Water Financing Authority (SJSC)**

The City and the City of San Jose jointly own the San Jose/Santa Clara Water Pollution Control Plant (Plant). The Plant provides wastewater treatment services to the City, to the City of San Jose, and to seven other tributary agencies. The City of San Jose is the administering agency for the Plant. The San Jose/Santa Clara Clean Water Financing Authority (Authority) was created in 1981 to provide financing for capital improvements to the Plant.

In 1959, the City and the City of San Jose entered into an agreement to construct and operate the Plant. Under the terms of the agreement, the cities own an undivided interest in the Plant and share in the capital and operating costs on a pro rata basis, determined by the ratio of each city's assessed valuation to the sum of both cities assessed valuations. Such percentages are determined annually and applied to the capital and operating costs of the Plant, determined on an accrual basis. For the year ended June 30, 2007, the City's portion was approximately 16.1%, which is also its interest in the net assets of the Plant.

South Bay Water Recycling Program

The South Bay Water Reclamation Program (SBWRP), a regional water reclamation program, is part of an action plan adopted by the Regional Water Quality Control Board (RWQCB) which limits the Plant on the amount of effluent discharged into San Francisco Bay in order to prevent conversion of salt marsh and destruction of endangered species habitat. Flow limits are not included in the current (2003-2008) 5-year permit from the RWQCB.

According to the approved action plan, SBWRP was required to reclaim 21.10 million gallons per day (MGD) of plant effluent for nonpotable use by November 1, 1997, (Phase I) and an additional 24.30 MGD by December 31, 2000 (Phase 2). The action plan also requires assessment of alternatives for potable reuse, including a potable pilot plant to be coordinated with the Santa Clara Valley Water District. In addition to a habitat preservation, the project reduces the mass trace contaminants discharged to the San Francisco Bay and provides a reliable source of water to offset potable water demands.

The SBWRP distribution system includes approximately 60 miles of pipe, a four million-gallon reservoir, a transmission pump station, and two booster pump stations. These facilities were constructed between 1996 and 1998 at a capital cost of approximately \$141 million funded by the tributary agencies, grants and bond proceeds. The City's share of Phase I costs was approximately \$20.07 million.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
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**NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)**

Proceeds from the City of San Jose 1995 Series A and B Bonds and other funds were used to pay for the City of San Jose's share of Phase I. The City contributed existing capital reserves, existing recycled water distribution system, and additional construction of system extensions. Other sources for funding of Phase I include U. S. Bureau of Reclamation grants, State of California Revolving Fund loans, \$6.45 million transferred in fiscal 1995 from the Clean Water Financing Authority to the City of San Jose Wastewater Treatment Plant Capital Fund, and cash contributions from other participating agencies.

In June 1997, the RWQCB approved the Proposed Revision to the South Bay Action Plan (the Plan), which describes the projects necessary to reduce average dry weather effluent flow from the Plant to below 120 MGD and protect salt marsh habitat for endangered species in the South Bay as required by RWQCB Order 94-117. These projects include expanding the Phase I nonpotable water distribution system by extending additional piping, placing greater emphasis on water conservation programs, reducing infiltration inflow, augmenting stream flow, and creating wetlands. The estimated costs of \$127.5 million has been funded through a combination of State Revolving Fund loans, Equipment Replacement Reserves, Sewage Treatment Plant Connection Fees, federal grants, in-kind services and cash contributions.

**F. MSR Public Power Agency**

MSR is a joint power agency formed in 1980 by the Modesto Irrigation District, the City and the City of Redding, California, to develop or acquire and manage electric power resources for the benefit of the members. The personnel of its members and contract professional staff perform other administrative and management functions of MSR. The member's income and expense sharing ratio is as follows: Modesto Irrigation District – 50%; City of Santa Clara – 35%; and City of Redding – 15%.

The City's equity in MSR's net losses exceeds its investment and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2007, the date of the latest available audited financial statements, the City's unrecognized share of member's deficit of MSR was \$66.6 million. Under the joint exercise of power agreement, which formed MSR, the City is responsible for funding up to 35% of MSR's operating cost, to the extent such funding is necessary. During the year ended June 30, 2007, the City made no contributions to fund its share of operating deficits. If there were such contributions, they would be included in the Electric Utility Enterprise Fund expenses.

MSR's principal activity is a 28.8% ownership interest in a 507-megawatt unit of a coal-fired electricity generating plant located in New Mexico (San Juan Plant). The acquisition of such ownership interest was funded through the issuance of revenue bonds, secured by a pledge and assignment of the net electric revenues of MSR and supported by take-or-pay commitments of the equity participants. MSR is also a participant in the Southwest Transmission Project, a 500-kilovolt alternating current transmission project between Central Arizona and Southern California that provides a firm transmission path for the electric power from the San Juan Plant to the MSR members. The southwest Transmission Project was completed and placed in service in April 1996.

In accordance with an agreement with the Tucson Electric Power Company (TEP), MSR has the right to certain levels of power transmission without charge and without transmission losses between the San Juan Plant in New Mexico and Palo Verde, Arizona through 2025. These rights are being utilized in connection with the delivery of power from the San Juan Plant to the members or to third party purchasers.

**CITY OF SANTA CLARA**  
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**NOTE 13 – PARTICIPATION IN JOINT VENTURES (CONTINUED)**

On June 1, 2005, MSR entered into a series of agreements with PPM Energy (as amended in October, 2005 and restated effective February 1, 2006) to purchase wind power energy with a nominal installed capacity of approximately 199.5 MW and an expected annual capacity factor of about 35%, as firmed, shaped, and delivered to the California-Oregon Border (COB) for a twenty-year period. Deliveries of energy under this project began October 1, 2006. The participation in this project is as follows: Modesto Irrigation District – 12.5%; City of Santa Clara – 52.5%; and City of Redding – 35%.

**G. Central California Power Agency No. 1 (CCPA)**

The Central California Power Agency No. 1 (CCPA) was formed by the City of Santa Clara (10%), the Modesto Irrigation District (40%) and the Sacramento Municipal Utilities District (50%) in 1982 for the purpose of developing and operating Geothermal Power projects. Between 1988 and 1996, CCPA operated the Coldwater Creek Geothermal Power Plant. Operations of this project ceased in 1996 and plant demolition and site restoration activities were completed in 2001. Pursuant to the terms of the Decommissioning Plan filed with the California Energy Commission, post-restoration site monitoring activities were completed in 2005. CCPA was finally dissolved by the CCPA Commission action on June 2, 2006, pursuant to the Dissolution Agreement among the Sacramento Municipal Utilities District, the Modesto Irrigation District, and the City of Santa Clara. On September 1, 2006, the City received a distribution of \$169 thousand for the return of its share in CCPA.

**H. Silicon Valley Animal Control Authority**

The City is a member of the Silicon Valley Animal Control Authority, (SVACA), established in 2000 to deliver animal control and sheltering services to three communities: the cities of Santa Clara, Campbell, and Monte Sereno. SVACA provides field and shelter services and staffing to support adoption and spay/neuter programs. SVACA purchased and retrofitted an existing cold-shell office building in Santa Clara that became a fully operating animal shelter. The shelter opened in the third quarter of 2006. SVACA is governed by a Board of Directors comprised of one appointed Councilmember from each of the three member cities.

During the fiscal year ended June 30, 2008, the City of Santa Clara contributed \$1,069,761.48 to SVACA. The City's equity interest in SVACA was \$5,624,621 at June 30, 2007. Audited financial statements are available from SVACA, located at 3370 Thomas Road, Santa Clara, CA 95054.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
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**NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)**

**A. Plan Description**

The City contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined benefit plan, which is a public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS offers a menu of benefit provisions and other requirements that are established by State statutes within the Public Employee Retirement law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Offices at 400 "P" Street, Sacramento, California 95814.

The City's two defined benefit pension plans (Miscellaneous Plan and Safety Plan) with CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All permanent (full-time and part-time) and eligible "as-needed" hourly City employees are required to participate in CalPERS.

**B. Pension Plan Benefits**

Benefits for employees in the Miscellaneous Plan and Safety Plan vest after five years of CalPERS credited service. The retirement benefits under both plans are based on the retiree's age, years of CalPERS credited service, and a benefit factor of 2.7% at 55 for miscellaneous plan members and 3% at 50 for safety plan members.

- **Miscellaneous Plan**

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (2.7% at 55), years of service, and final compensation (monthly average of member's highest 12 consecutive months' full-time equivalent monthly pay). The service retirement benefit for this group is not capped.

- **Safety Plan**

Participants in this plan are eligible for service retirement and receive graduated benefits upon attaining the age of 50 and with at least five years of credited service with a CalPERS employer. The service retirement benefit is a monthly allowance equal to the product of the benefit factor (3% at 50), years of service, and final compensation. For Fire Safety employees, the final compensation is the monthly average of member's highest 36 consecutive months' full-time equivalent monthly pay, and for Police Safety employees, it is the monthly average of the member's highest 12 consecutive months' full-time equivalent monthly pay.

**CITY OF SANTA CLARA**  
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**NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (Continued)**

The service retirement benefit for the Safety Plan group is capped at 90% of final compensation.

**C. Funding Policy**

Permanent employees are required to make contributions to their account. For employees who are covered by formulas modified to coordinate with Social Security, a rate of zero is charged for the first \$133.33 per month. The member employees' contribution rates are set by State statute and only change with significant contract amendments. The rates at the end of fiscal year 2007-08 were:

<b>Category</b>	<b>Member Rates As A Percentage of Wages</b>
Miscellaneous Plan Members	8.00%
Safety Plan:	
Fire Public Safety Members	9.00%
Police Public Safety Members	11.25%

The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the Board of Administration (the employer rate). The City's payroll for employees covered by CalPERS for fiscal year ended June 30, 2008 was \$87,182,153 (consisting of \$50,964,905 for Miscellaneous Plan employees and \$36,217,248 for Public Safety Plan employees), out of the total payroll for the City of \$107,164,522. The CalPERS employer rate and annual costs are described below.

**D. Annual Pension Cost and Employer Rates**

The required contribution for the year ended June 30, 2008 was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The Entry Age Normal Actuarial Cost Method is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future, as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. CalPERS uses a modification of the Entry Age Normal Actuarial Cost Method in which the City's total normal cost is expressed as a level percent of payroll. CalPERS also uses the level percentage of projected payroll method to amortize any unfunded actuarial liabilities (or excess assets) on a closed basis over the remaining amortization period. The remaining amortization

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (Continued)**

period at June 30, 2005 was 30 years for the Safety Plan and 30 years for the Miscellaneous Plan.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement for the year ended June 30, 2008 include the following:

- A rate of return on the investment of present and future assets of 7.75% per year compounded annually.
- Projected salary increases that vary by duration of service ranging from 3.25% to 14.45% for Miscellaneous Plan members, and 3.25% to 11.15% for Safety Plan members.
- Overall payroll growth of 3.25% compounded annually.
- Inflation factor of 3.00% compounded annually.

In addition to the required contribution calculated in the actuarial valuation, mid-year contract amendments for Safety and Miscellaneous Plans brought about an increase in the employer contribution rates effective December 17, 2006.

The City's actuarial required contribution rates and incurred costs paid to CalPERS for the last three fiscal years is as follows:

<b>Fiscal Year Ending</b>	<b>Required Contribution Rates for Safety</b>	<b>Required Contribution Rates for Miscellaneous</b>	<b>Annual Pension Cost (APC) for Safety and Miscellaneous Employees</b>	<b>Percentage Of APC Contributed</b>	<b>Net Pension Obligation</b>
06/30/06	26.085%	12.309%	\$ 15,293,428	100%	-
06/30/07:					
July – Dec.	25.642%	12.320%	\$ 7,678,716	100%	-
Jan. – June	25.712%	18.327%	\$ 10,013,348	100%	-
06/30/08	25.876%	17.670%	\$ 18,377,072	100%	-

**E. Funded Status of Miscellaneous Plan**

The Plan's actuarial value (which differs from market value) and funding progress over the most recently available three years are set forth below at their actuarial valuation date of June 30:

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 14 – RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (Continued)**

**Funded Status of Miscellaneous Plan**

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded/ (Overfunded) as a % of Payroll
6/30/2005	\$321,174,228	\$255,154,509	\$66,019,719	79.4%	\$54,022,581	122.2%
6/30/2006	\$342,728,558	\$278,386,345	\$64,342,213	81.2%	\$54,904,139	117.2%
6/30/2007	\$376,099,469	\$308,331,733	\$67,767,736	82.0%	\$51,176,159	132.4%

**Funded Status of Safety Plan**

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded/ (Overfunded) as a % of Payroll
6/30/2005	\$379,340,039	\$322,968,298	\$56,371,741	85.1%	\$32,103,300	175.6%
6/30/2006	\$411,413,403	\$346,061,380	\$65,352,023	84.1%	\$34,404,194	190.0%
6/30/2007	\$437,316,663	\$371,594,232	\$65,722,431	85.0%	\$35,727,714	184.0%

**NOTE 15 – RETIREMENT PLAN (DEFINED CONTRIBUTION PLAN)**

The City's PARS (Public Agency Retirement System) Plan (Plan) is a compulsory retirement plan that qualifies under Section 401 of the Internal Revenue Code covering City employees who are not members of PERS. Under the provisions of the Plan, the City makes no contributions; however all administrative costs of the plan are funded by the City. The Plan administrator is Phase II Systems. The total assets of the Plan are held in trust for the employees and are not included in the City's assets or equity.

**NOTE 16 – DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In applying the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City has determined that it is not required to record the assets and associated liabilities of the plan.

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2008**

**NOTE 17 – OTHER POST EMPLOYMENT BENEFITS**

**A. Plan Description**

The City's single-employer defined benefit Other Post Employment Benefit (OPEB) Plan, which was established by City Council in fiscal year 2007-08 in accordance with GASB 45, provides reimbursements to retirees for qualified expenses. Retirees who have at least ten years of service and meet certain criterion based upon retirement date, household income in the most recent calendar year and age are entitled to reimbursements for qualified expenses. Annual maximum reimbursement amounts differ depending on when an employee retired from City service. The majority of retirees may be eligible for a maximum of \$3,336 in annual reimbursements. Amendments to benefit provisions are negotiated by the various bargaining units at the City and must be approved by Council. In fiscal year 2007-08, the City established an irrevocable exclusive multi-employer benefit trust which is administered by Public Agency Retirement Services (PARS). The trust will be used to accumulate and invest assets necessary to reimburse retirees. Separate financial reports are issued by PARS for the OPEB plan. The report can be obtained by writing to PARS at 5141 California Avenue, Suite 150, Irvine, CA 92617-3069, or by calling 1-800-540-6369.

**B. Funding Policy**

Annual required contributions (ARC) are based upon actuarial valuations. The contribution requirements of the ARC are established and may be amended by the City Council. Plan members do not make contributions to the plan; the plan is funded entirely by employer contributions.

The City's annual OPEB cost (expense) is calculated based upon the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45 which the City implemented in fiscal year 2007-08 prospectively. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over thirty years.

Based upon the valuation dated June 30, 2005, the most recent valuation available, the actuarially required ARC was \$2.9 million.

The City's annual OPEB cost, equal to the ARC, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2006	N/A	N/A	N/A
June 30, 2007	N/A	N/A	N/A
June 30, 2008	\$2,955,000	100%	0

**C. Plan Funded Status Information**

As of June 30, 2005, the latest valuation date, the funded status of the plan, was as follows.

Actuarial accrued liability (AAL)	\$30,589,000
Actuarial value of plan assets	\$ 0
Unfunded actuarial accrued liability(UAAL)	\$30,589,000
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$83,091,000
UAAL as a percentage of covered payroll	36.8%

**CITY OF SANTA CLARA**  
**Notes to General Purpose Financial Statements**  
**June 30, 2008**

**NOTE 17 – OTHER POST EMPLOYMENT BENEFITS (continued)**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**D. Actuarial Methods And Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to the point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2005 actuarial valuation, the entry age normal actuarial cost method was used with a thirty (30) year closed amortization period and level percentage of pay. There were no assets in the plan as of the valuation date. The actuarial assumptions are as follows:

- A discount rate of 4.25% was used.
- The demographics for terminations, mortality, disability and retirements were based upon the CalPERS 1997-2002 Experience Study Rates.
- Healthcare costs trends utilized actual rates for 2006 and a 10.3% increase for HMO and 11.3% increase for PPO plans. Future years were reduced by decrements of .8% per year to an ultimate rate of 4% for HMO and 5% for PPO plans by year 2015.
- The increase on caps were linked to healthcare premium trends and 3% for reimbursement plans.
- The CPI was assumed to be constant at 3% per year.
- Aggregate benefit increases assumed to be 3.25% per year.
- Age for females assumed to be three years younger than males.
- Safety and Miscellaneous employees were assumed to be 90% and 85 % married respectively.
- Participation in the plan was assumed to be 80%.
- Medical coverage at retirement was assumed to be at 75%.

These assumptions are reviewed as part of the biennial update of the actuarial report.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (SVP)**

The City's Electric Utility Department provides electricity to City residents and businesses under the name Silicon Valley Power (SVP).

**A. Long-term Power Purchase Contracts**

The City purchases wholesale electric power from various participants of the Western Systems Power Pool (WSPP), NCPA, MSR Public Power Agency (Note 13), PG&E, Western Area Power Administration, and other sources to supply the power requirements of the City's electric utility customers. The City actively manages the financial risks inherent in these long-term contracts, including the risks arising from the changing spot market prices that move above and below the contract prices and from contract disputes that may arise from time to time. The cost of power is included in enterprise fund materials, services and supplies expense.

**B. Restructuring of the California Electric Industry**

Deregulation Legislation and Direct Access

The passage of AB1890 in 1998 triggered fundamental changes in the structure of the electric industry in California. The essential feature of AB1890 was to allow individual consumers the opportunity to buy energy directly from power producers and marketers, rather than from their local investor owned utility. This was called direct access. Generally, AB1890 provided for creation of the California Power Exchange (Cal PX), which was to be a clearinghouse for energy transactions among investor owned utilities, independent generators and power marketers, who in turn would serve direct access customers. AB1890 also created the California Independent System Operator (CAISO), which was to manage the state's bulk transmission grid. In addition, investor owned utilities were encouraged to sell a substantial portion of their generating facilities to third parties, which they did. AB1890 further provided for a four-year freeze of investor-owned utility rates and recovery by investor and publicly owned utilities during this four-year period of so-called "stranded costs" arising from what were thought at the time to be uncompetitive generation investments. AB1890 also encouraged, but did not require, municipal utilities to establish direct access programs.

In 1999, the City Council adopted a direct access program that provided for a stranded cost charge, or Competition Transition Charge, subject to legal validation of the City's right to collect such a charge. That validation was secured in 2000, and the City's direct access program was to commence in April 2001.

However, in 2000 and 2001, the price of electricity at the Cal PX became extremely high, and investor-owned utilities were unable to pay for the energy that they needed from the Cal PX. These conditions caused the passage of AB1X by the California legislature, pursuant to which investor owned utilities' energy procurement function was assigned to the California Department of Water Resources. AB1X also suspended direct access for investor-owned utilities, essentially until 2013. Based on this development, the City has deferred implementation of its direct access program.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (SVP) (Continued)**

Other Effects of Restructuring

The restructuring of the electric industry has created a substantially changed market for electricity. Compared to the prior market structure, this market has exhibited increased uncertainty and volatility. In anticipation of this restructured market, the City developed a strategic plan to guide its electric utility's

transition efforts into the new environment. As part of the Strategic Plan, the Cost Reduction Account was established to protect ratepayers from rate volatility in future years due to revenue shortfalls or unexpected costs. As of June 30, 2008, the balance of the Cost Reduction Account is \$181.53 million.

The strategic plan is a multi-pronged strategic initiative to address electric generation, transmission and distribution business issues given both the initially anticipated operating environment, and the operating environment that has actually evolved. The City's management believes that the strategic plan has been an effective tool for the electric utility as it has transitioned into the new environment.

Energy Wholesale Trading and Risk Management

SVP participates in the California deregulated wholesale gas and power market. By so doing, SVP engages in the trading of commodity forward contracts (gas and electric energy contracts). Activities during the fiscal year were substantially considered hedging transactions and, as such, have been accounted for using the settlement method of accounting. Accordingly, related gross purchases and sales totaling \$178.0 million and \$172.4 million, respectively, for fiscal year ended June 30, 2008, have been separately reported on the statement of revenues, expenses and changes in net assets. Associated receivables representing delivered but unbilled energy, and corresponding payable amounts totaling \$29.32 million and \$31.11 million, respectively, have been reported in the proprietary funds statement of net assets.

The trading activity exposes SVP to various risks including market, credit and operational risks. Active and effective management of these risks associated with the power trading activity is critical to its continued success and contribution to the entire utility. A Risk Management Committee, separate from the units that create the risk exposures, overseen by a Risk Oversight Committee that reports ultimately to the City Council, administers and monitors compliance with the risk policies and procedures on a regular basis. The City and SVP believe that it has the resource commitment, effective policies and procedures, and is continuing to improve the control structure and oversight for evaluating and controlling the market and credit risks to which it is exposed.

Credit Arrangements

The City and SVP have trading business support deposits and credit arrangements including an \$85 million collateralized credit facility with Bank of America. This letter of credit facility with an expiration date of March 1, 2009 is available to the trading operation as a credit enhancement facility, as necessary. As of June 30, 2008, there was no need to renew the letter of credit (\$200 thousand) issued to a third party out of the total available standby letter of credit of \$85 million because SVP has qualified for a significant unsecured credit line.

The City of Santa Clara electric utility maintains credit policies, procedures, and systems that help mitigate credit risk and minimize overall credit risk exposure. The policies include transacting only with

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 18 – ELECTRIC UTILITY - SILICON VALLEY POWER (SVP) (Continued)**

investment grade counterparties, and evaluation of potential counterparties' financial condition and an assignment of credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. Additionally, SVP is a signatory to the WSPP netting agreement supplement and otherwise, enters into master netting arrangements whenever possible and, where appropriate, obtains collateral prior to trade execution. Master netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterparty in the event of default.

Provision for Disputed SCS charges

In November 1999, PG&E filed with the Federal Energy Regulatory Commission (FERC) its Schedule of Coordination Services (SCS) Tariff, alleging that PG&E was entitled to collect from Santa Clara and other municipal users certain costs imposed by the CAISO on PG&E for the period April 1998 to August 2002. On June 1, 2004, PG&E began billing Santa Clara for these costs. These costs, which were billed over a twelve-month period, accumulated to approximately \$24.0 million, including interest. SVP, in accordance with the SCS Tariff, made the twelve monthly payments into an escrow account.

On May 17, 2005, Santa Clara and PG&E filed with FERC, a settlement in the amount of \$10 million, which, however, is ultimately conditional on the outcome of PG&E's appeal of FERC's Opinions Nos. 458 and 458-A, which prohibited PG&E from seeking recovery of its SCS costs from all of its transmission customers, before the District Court of Appeal for the District of Columbia (D.C. Circuit Court). On May 24, 2005, the City Council approved the settlement. On June 24, 2005, FERC issued an order accepting the settlement.

On July 12, 2005, the D.C. Circuit Court issued an order vacated FERC's Opinions 458 and 458-A and remanded the case to FERC "for further proceedings consistent with the [California Independent System Operator] tariff." Under the terms of the settlement, if FERC issues a new order granting PG&E's motion to assess the SCS charges upon its customers, Santa Clara is entitled to a full refund of the \$10 million settlement; however, if on remand FERC finds that some portion of the SCS charges are yet due from Santa Clara under the SCS tariff, then Santa Clara will not recover the \$10 million amount of the settlement. On August 5, 2005, in accordance with the settlement agreement, SVP submitted the \$10 million payment to PG&E and closed the escrow account. The FERC subsequently agreed in its order dated December 20, 2005, that PG&E can recover the disputed SCS charges from its customers. Accordingly, in June 2006, PG&E refunded to SVP the subject \$10 million payment, plus interest.

**C. 2008 Rate Increases**

In December 2007, the City Council adopted a 3% rate increase effective January 1, 2008 and an additional 3% increase effective January 1, 2009. The primary reasons for the increase were the increased cost and use of fuel for electric generation, combined with a significant reduction in energy available from Western Area Power Administration. City staff continues to monitor costs and revenues to assess future rate increase recommendations.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 19 – NET ASSETS/FUND EQUITY**

Net Assets is measured on the full accrual basis, while Fund Balance is measured on the modified accrual basis.

**A. Net Assets**

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include investments in joint ventures, developer fees received for use on capital projects, debt service requirements, redevelopment funds restricted to low and moderate-income purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted as to use.

**B. Fund Balances/Net Assets, Reserves and Designations**

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of a fund balance or retained earnings that has been encumbered or is legally segregated for a specific future use. A reserved retained earnings represents contractual obligations. The remaining portion is unreserved.

A portion of unreserved fund balance may be designated to indicate the City Council's plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change and the appropriations might not ever be legally authorized or result in expenditures.

**C. Net Asset/Fund Balance Deficits**

The funds listed below had an accumulated deficit as of June 30, 2008:

Fund Name	Accumulated Deficit
Enterprise Funds:	
Solid Waste	\$ 1,752,159
Cemetery	\$ 508,672
Internal Service Funds:	
Workers' Compensation Insurance Claims	\$ 15,556,432

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 19 – NET ASSETS/FUND EQUITY (Continued)**

The Solid Waste Enterprise Fund accumulated deficit is the result of the unfunded post closure liability associated with the closure of the City's Landfill. It is anticipated that future earnings and operating transfers will be sufficient to meet the City's post closure obligation. The City's long term plans include construction of additional facilities that will help bring the Cemetery Enterprise Fund closer towards recovery. The Workers Compensation Insurance Claims' Internal Service Fund accumulated deficit is expected to be offset by future charges to the General Fund and the proprietary funds.

**NOTE 20 – RISK MANAGEMENT**

**Normal Course of Business**

The City is exposed to various risks of losses related to torts, errors and omissions, general liability, injuries to employees and unemployment claims. The City currently reports all of its risk management activities in its Internal Service Funds. Claims, expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. These losses include an estimate of claims that have been incurred but not reported. As of June 30, 2008, the amount of these liabilities was \$19,035,408.

This liability is the City's best estimate based upon available information which is included in accrued liabilities.

Changes in the reported liability since June 30, 2008, resulted from the following:

	<u>Special Liability</u>	<u>Workers' Compensation</u>	<u>Total</u>
Liability as of June 30, 2006	\$ 445,578	\$ 13,445,432	\$ 13,891,010
Claims and changes in estimates during fiscal 2007	1,602,766	7,146,368	8,749,134
Claim payments	(1,217,481)	(3,050,592)	(4,268,073)
Liability as of June 30, 2007	830,863	17,541,208	18,372,071
Claims and changes in estimates during fiscal 2008	1,706,229	3,670,139	5,376,368
Claim payments	(1,434,276)	(3,278,755)	(4,713,031)
Liability as of June 30, 2008	<u>\$ 1,102,816</u>	<u>\$ 17,932,592</u>	<u>\$ 19,035,408</u>
Current Claims Payable	\$ 606,549	\$ 4,303,822	\$ 4,910,371
Long Term Claims Payable	496,267	13,628,770	14,125,037
Liability as of June 30, 2008	<u>\$ 1,102,816</u>	<u>\$ 17,932,592</u>	<u>\$ 19,035,408</u>

With respect to the Special Liability accrual of \$1,102,816, the City has numerous unsettled lawsuits filed or claims asserted against it as of June 30, 2008. The City Attorney has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City and to arrive at an estimate of the amount or ranges of potential loss to the City. As a result of such review, the City Attorney has categorized the various claims and lawsuits as "probable," "reasonably possible," and "remote" loss contingencies, as defined in SFAS No. 5, *Accounting for Contingencies*.

**CITY OF SANTA CLARA**  
**Notes to Basic Financial Statements**  
**June 30, 2008**

**NOTE 20 - RISK MANAGEMENT (Continued)**

The City Attorney has determined that the City's probable loss contingencies, which are accrued for as the estimated liability for claims and lawsuits as of June 30, 2008, are approximately \$1,102,816. The final outcome of claims and lawsuits, which have been categorized as reasonably possible loss contingencies, is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying basic financial statements relative to the potential outcome of such claims and lawsuits. However, the ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying basic financial statements.

**NOTE 21 – COMMITMENTS AND CONTINGENCIES**

The City has future commitments under construction projects as detailed in Note 10A, electricity purchase contracts as discussed in Note 18A, and is contingently liable under joint venture agreements discussed in note 13B.

The City also participates in several federal and state grant programs. In accordance with the provisions of the federal Single Audit Act, Office of Management and Budget Circular A-133, and applicable State requirements, the City's independent certified public accountants have audited these programs. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

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***Required Supplementary  
Information***

CITY OF SANTA CLARA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

**1 – SCHEDULE OF FUNDING PROGRESS – OTHER POST RETIREMENT BENEFIT PLAN**

**2 – BUDGETS AND BUDGETARY ACCOUNTING**

The results of operations are presented in the budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major differences between the budgetary basis actual and GAAP basis actual are as follows:

- Year-end encumbrances are recognized as the equivalent of expenditures in the budgetary basis financial statements, while encumbered amounts are not recognized as expenditures on the GAAP basis until the liability is incurred.
- Expenditures of prior year encumbrances are recognized on the GAAP basis in the current year, while on the budgetary basis prior year encumbrances were recognized in the prior year.
- Accrued liabilities and compensated absences are recognized on the GAAP basis, while the budgetary basis does not recognize accrued liabilities.
- Revenues considered susceptible to accrual on the GAAP basis are not recognized on the budgetary basis until received.
- Increases to certain GAAP basis advances to other funds are treated as expenditures for budgetary basis financial statements.
- Component units and proprietary funds included in the City's basic financial statements, for which no annual budgets are prepared, are excluded from the budgetary basis financial statements.

**CITY OF SANTA CLARA**  
**SCHEDULE OF FUNDING PROGRESS – OTHER POST RETIREMENT BENEFIT PLAN**  
**JUNE 30, 2008**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] /c)
06/30/05	-	\$30,589,000	\$30,589,000	0%	\$83,091,000	36.8%

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CITY OF SANTA CLARA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes:				
Sales	\$ 43,463,000	\$ 43,463,000	\$ 41,691,543	\$ (1,771,457)
Ad valorem	26,910,000	26,910,000	27,591,808	681,808
Transient occupancy	10,712,000	10,712,000	11,278,026	566,026
Other	3,841,120	3,841,120	4,402,025	560,905
Licenses, permits, fines and penalties	4,517,830	4,547,872	5,288,013	740,141
Intergovernmental	1,435,500	1,724,074	1,487,844	(236,230)
Charges for services	17,874,661	17,980,945	20,728,362	2,747,417
Contributions in-lieu of taxes	15,456,832	15,456,832	14,731,755	(725,077)
Interest and rents	7,294,360	7,320,788	8,750,556	1,429,768
Other	237,983	767,247	753,490	(13,757)
Total Revenues	131,743,286	132,723,878	136,703,422	3,979,544
EXPENDITURES				
Current:				
General government:				
General Administration:				
Salary & benefits	5,013,063	2,795,891	2,599,433	196,458
Material, service & supplies	10,122,170	10,092,089	9,655,472	436,617
Internal service fund charges	73,429	73,429	73,429	-
Capital outlay	3,500	24,328	22,745	1,583
Total General Administration	15,212,162	12,985,737	12,351,079	634,658
City Clerk:				
Salary & benefits	474,449	478,398	457,892	20,506
Material, service & supplies	86,890	266,912	230,974	35,938
Internal service fund charges	2,712	2,712	2,712	-
Total City Clerk	564,051	748,022	691,578	56,444
City Attorney:				
Salary & benefits	1,025,852	1,017,997	939,790	78,207
Material, service & supplies	69,425	99,728	96,728	3,000
Internal service fund charges	8,261	8,261	8,261	-
Capital outlay	2,750	2,750	1,798	952
Total City Attorney	1,106,288	1,128,736	1,046,577	82,159
Human Resources:				
Salary & benefits	1,601,136	1,572,099	1,408,373	163,726
Material, service & supplies	230,648	269,431	269,431	-
Internal service fund charges	9,625	9,625	9,625	-
Capital outlay	1,630	1,630	1,514	116
Total Human Resources	1,843,039	1,852,785	1,688,943	163,842

CITY OF SANTA CLARA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Finance:				
Salary & benefits	6,339,643	6,514,847	6,321,466	193,381
Material, service & supplies	1,343,648	1,343,648	1,334,689	8,959
Internal service fund charges	138,351	138,351	138,351	-
Capital outlay	27,234	27,234	18,743	8,491
Total Finance	7,848,876	8,024,080	7,813,249	210,831
Total General Government	26,574,416	24,739,360	23,591,426	1,147,934
Public Works:				
Salary & benefits	11,326,524	11,456,830	11,141,770	315,060
Material, service & supplies	2,155,744	2,303,825	2,280,062	23,763
Internal service fund charges	1,106,686	1,106,686	1,106,686	-
Capital outlay	81,310	81,310	34,088	47,222
Total Public Works	14,670,264	14,948,651	14,562,606	386,045
Parks and Recreation:				
Salary & benefits	8,945,409	8,783,425	8,783,425	-
Material, service & supplies	1,776,873	2,651,347	2,651,346	1
Internal service fund charges	529,735	529,735	529,735	-
Capital outlay	26,000	26,000	25,524	476
Total Parks and Recreation	11,278,017	11,990,507	11,990,030	477
Public Safety:				
Police:				
Salary & benefits	35,648,789	36,127,473	35,687,274	440,199
Material, service & supplies	1,923,863	1,924,894	1,846,522	78,372
Internal service fund charges	2,597,128	2,597,128	2,597,128	-
Capital outlay	40,000	42,114	38,551	3,563
Total Police	40,209,780	40,691,609	40,169,475	522,134
Fire:				
Salary & benefits	29,066,171	29,322,375	29,161,180	161,195
Material, service & supplies	619,245	722,781	680,929	41,852
Internal service fund charges	1,942,832	1,942,832	1,942,832	-
Capital outlay	75,690	122,911	119,340	3,571
Total Fire	31,703,938	32,110,899	31,904,281	206,618
Total Public Safety	71,913,718	72,802,508	72,073,756	728,752

**CITY OF SANTA CLARA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2008  
(Continued)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Planning & Inspection:				
Salary & benefits	4,351,057	4,269,762	4,269,762	-
Material, service & supplies	514,806	726,938	726,938	-
Internal service fund charges	95,059	95,059	95,059	-
Total Planning & Inspection	4,960,922	5,091,759	5,091,759	-
Library:				
Salary & benefits	5,312,388	5,378,294	5,242,732	135,562
Material, service & supplies	1,253,500	1,685,000	1,600,387	84,613
Internal service fund charges	62,392	62,392	62,392	-
Total Library	6,628,280	7,125,686	6,905,511	220,175
Total Expenditures	136,025,617	136,698,471	134,215,088	2,483,383
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,282,331)	(3,974,593)	2,488,334	6,462,927
OTHER FINANCING SOURCES (USES)				
Transfers in	14,685,557	15,009,397	13,846,854	(1,162,543)
Transfers (out)	(16,200,854)	(16,980,203)	(16,980,203)	-
Sale of capital assets	-	-	4,264	4,264
Total Other Financing Sources (Uses)	(1,515,297)	(1,970,806)	(3,129,085)	(1,158,279)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(5,797,628)	(5,945,399)	(640,751)	\$ 5,304,648
ADJUSTMENTS TO BUDGETARY BASIS:				
Expenditures of prior year encumbrances recognized on the GAAP basis			2,336,370	
Current year encumbrances recognized on the budgetary basis			(2,302,756)	
Net change in receivables recognized on the GAAP basis			(1,620,326)	
Net change in accrued liabilities recognized on the GAAP basis			1,120,990	
Fund balance - July 1	77,119,260	77,119,260	77,119,260	
Fund balance - June 30	\$ 71,321,632	\$ 71,173,861	\$ 76,012,787	

***Non-Major Funds  
Statements***

CITY OF SANTA CLARA NON-MAJOR GOVERNMENTAL FUNDS
---

SPECIAL REVENUE FUNDS

GAS TAX

The fund accounts for revenues and expenditures received from the State under Street and Highways Codes Sections 2105 (Gas Tax 2105), 2106 (Collier-Unruh) and 2107 (Special Gas Tax). The allocations must be spent for street maintenance or construction and a limited amount for engineering.

COMMUNITY ACTIVITIES

This fund accounts for fees and expenses related to certain special recreation activity programs for adults (including seniors), and teens.

HUD PROGRAMS

This fund accounts for grant funds received from other governmental agencies for the purpose of developing viable urban communities.

CITY AFFORDABLE HOUSING

This fund accounts for the City's Below Market Housing Program for low and moderate income residents.

MAINTENANCE

This fund accounts for the maintenance of two Parking Districts located near the City's Convention Center and the downtown area. Funds are received by means of a Special Benefit Assessment levied against the property owners in the respective districts.

OPERATING GRANTS FUND

This fund accounts for grant funds received from other governmental agencies for various operating activities.

DEBT SERVICE FUNDS

SPECIAL ASSESSMENTS

This fund accumulates monies for payment of Special Assessment bonds which are financed by assessments placed on the County tax roll.

PUBLIC FACILITIES FINANCING CORPORATION

This fund accumulates monies for the repayment of Certificates of Participation, which are financed by lease payments made by the City's General Fund to the PFFC for use of the Police Administration Building site.

CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS (Continued)

GENERAL GOVERNMENT

This fund accumulates monies for the payment of General Government long-term obligations, which are financed by various General Fund revenues.

CAPITAL PROJECTS FUNDS

PARKS AND RECREATION FACILITIES

This fund was established to account for revenues, contributions and reimbursements received and costs incurred in connection with the acquisition and construction of the City Parks.

STREETS AND HIGHWAYS IMPROVEMENT

This fund is used to account for revenues and expenditures related to road construction and traffic improvements.

STORM DRAIN IMPROVEMENT

This fund is used to account for revenues and expenditures related to the construction or modification of the City's storm drainage system.

FIRE DEPARTMENT IMPROVEMENT

This fund is used to account for revenues and expenditures related to the construction or modification of City fire stations.

LIBRARY DEPARTMENT IMPROVEMENTS

This fund is used to account for revenues and expenditures related to the construction or modification of the City library facilities.

PUBLIC FACILITEIS

This fund is used to account for revenues and expenditures related to the construction, acquisition or modification of public improvements not accounted for in another Capital Projects Fund.

STREET BEAUTIFICATION

This fund is used to account for revenues and expenditures related to the landscaping of City streets.

SPECIAL ASSESSMENTS

Included Special Assessment District funds used to finance public improvements deemed to benefit the properties against which special assessments are made.

CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS (Continued)

PERMANENT FUNDS

PERPETUAL CARE AND ENDOWMENT FUND

These funds account for cemetery maintenance funded by plot owners.

CHARITABLE TRUST FUND

This fund accounts for the various gifts, donations and bequests received by the City.

CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008

SPECIAL REVENUE FUNDS

	Gas Tax	Community Activities	HUD Programs	City Affordable Housing
<b>ASSETS</b>				
Cash and investments:				
Pooled cash and investments	\$ 7,652,407	\$ 740,152	\$ 525,961	\$ 408,852
Investments with fiscal agent - current	-	-	-	-
Cash designated for construction	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Accounts	-	9,647	-	-
Interest	-	-	-	-
Loans	-	-	11,743,641	6,652,862
Special assessments	-	-	-	-
Intergovernmental	495,057	-	2,478,963	-
Due from other funds	-	-	-	-
Investments with fiscal agent - noncurrent	-	-	-	-
Total Assets	<u>\$ 8,147,464</u>	<u>\$ 749,799</u>	<u>\$14,748,565</u>	<u>\$ 7,061,714</u>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 16,409	\$ 7,307	\$ 97,328	\$ -
Due to other funds	-	-	171,727	-
Deferred revenue	-	33,908	13,934,272	6,652,862
Total Liabilities	<u>16,409</u>	<u>41,215</u>	<u>14,203,327</u>	<u>6,652,862</u>
<b>FUND EQUITY</b>				
Reserved for encumbrances	171,850	-	203,675	-
Reserved for debt service	-	-	-	-
Reserved for special programs	7,959,205	708,584	341,563	-
Unreserved:				
Designated for capital projects				
Reported in:				
Special revenue funds	-	-	-	408,852
Capital projects funds	-	-	-	-
Undesignated				
Reported in:				
Special revenue funds	-	-	-	-
Total Fund Balances	<u>8,131,055</u>	<u>708,584</u>	<u>545,238</u>	<u>408,852</u>
Total Liabilities and Fund Balances	<u>\$ 8,147,464</u>	<u>\$ 749,799</u>	<u>\$14,748,565</u>	<u>\$ 7,061,714</u>

DEBT SERVICE FUNDS

<u>Maintenance</u>	<u>Operating Grants Fund</u>	<u>Special Assessment</u>	<u>Public Facilities Financing Corp.</u>	<u>General Government</u>
\$ 208,391	\$ 140,203	\$2,961,388	\$ 276,985	\$ 687,444
127,483	-	-	456	248
-	-	-	-	-
-	-	-	34,703	67,608
-	-	3,155,000	-	-
-	45,015	-	-	-
14,072	-	-	-	-
-	-	-	3,360,830	3,838,304
<u>\$ 349,946</u>	<u>\$ 185,218</u>	<u>\$6,116,388</u>	<u>\$3,672,974</u>	<u>\$ 4,593,604</u>
\$ 424	\$ 34,438	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	3,155,000	-	-
424	34,438	3,155,000	-	-
-	-	-	-	-
-	-	2,961,388	3,672,974	4,593,604
349,522	150,780	-	-	-
-	-	-	-	-
-	-	-	-	-
349,522	150,780	2,961,388	3,672,974	4,593,604
<u>\$ 349,946</u>	<u>\$ 185,218</u>	<u>\$6,116,388</u>	<u>\$3,672,974</u>	<u>\$ 4,593,604</u>

(Continued)

CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008

	CAPITAL PROJECTS FUNDS			
	Parks and Recreation Facilities	Streets and Highways Improvement	Storm Drain Improvement	Fire Department Improvement
<b>ASSETS</b>				
Cash and investments:				
Pooled cash and investments	\$ 594,441	\$ 14,946,766	\$ 2,981,897	\$ 643,936
Investments with fiscal agent - current	-	-	-	-
Cash designated for construction	-	3,489,380	-	-
Receivables (net of allowance for uncollectibles):				
Accounts	-	83,102	5,931	-
Interest	-	-	-	-
Loans	-	-	-	-
Special assessments	-	-	-	-
Intergovernmental	367,200	-	-	-
Due from other funds	-	-	-	-
Investments with fiscal agent - noncurrent	-	-	-	-
Total Assets	<u>\$ 961,641</u>	<u>\$ 18,519,248</u>	<u>\$ 2,987,828</u>	<u>\$ 643,936</u>
<b>LIABILITIES</b>				
Accrued liabilities	\$ 138,707	\$ 280,847	\$ -	\$ 33,946
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
Total Liabilities	<u>138,707</u>	<u>280,847</u>	<u>-</u>	<u>33,946</u>
<b>FUND EQUITY</b>				
Reserved for encumbrances	132,808	196,662	22,169	-
Reserved for debt service	-	-	-	-
Reserved for special programs	-	-	-	-
Unreserved:				
Designated for capital projects				
Reported in:				
Special revenue funds	-	-	-	-
Capital projects funds	690,126	18,041,739	2,965,659	609,990
Undesignated				
Reported in:				
Special revenue funds	-	-	-	-
Total Fund Balances	<u>822,934</u>	<u>18,238,401</u>	<u>2,987,828</u>	<u>609,990</u>
Total Liabilities and Fund Balances	<u>\$ 961,641</u>	<u>\$ 18,519,248</u>	<u>\$ 2,987,828</u>	<u>\$ 643,936</u>

(Continued)

CAPITAL PROJECTS FUNDS				PERMANENT FUNDS			Total Non-Major Governmental Funds
Library Department Improvements	Public Facilities	Street Beautification	Special Assessments	Perpetual Care	Endowment Fund	Charitable Trust	
\$ 1,433,916	\$19,123,775	\$ 92,536	\$982,352	\$38,244	\$957,855	\$ 279,228	\$55,676,729
-	-	-	-	-	-	-	704
-	-	-	-	-	-	-	3,616,863
-	-	-	-	-	-	-	98,680
-	-	-	-	-	-	20,637	122,948
-	-	-	-	-	-	-	18,396,503
-	-	-	-	-	-	-	3,155,000
-	-	-	-	-	-	-	3,386,235
-	-	-	-	-	-	-	14,072
-	-	-	-	-	-	2,889,902	10,089,036
<u>\$ 1,433,916</u>	<u>\$19,123,775</u>	<u>\$ 92,536</u>	<u>\$982,352</u>	<u>\$38,244</u>	<u>\$957,855</u>	<u>\$3,189,767</u>	<u>\$94,556,770</u>
\$ 27,924	\$ 1,146,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,784,090
-	-	-	-	-	-	-	171,727
-	-	-	-	-	-	-	23,776,042
<u>27,924</u>	<u>1,146,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,731,859</u>
-	693,580	-	878,148	-	-	-	2,298,892
-	-	-	-	-	-	-	11,227,966
-	-	-	-	38,244	957,855	3,189,767	13,695,520
-	-	-	-	-	-	-	408,852
1,405,992	17,283,435	92,536	104,204	-	-	-	41,193,681
-	-	-	-	-	-	-	-
<u>1,405,992</u>	<u>17,977,015</u>	<u>92,536</u>	<u>982,352</u>	<u>38,244</u>	<u>957,855</u>	<u>3,189,767</u>	<u>68,824,911</u>
<u>\$ 1,433,916</u>	<u>\$19,123,775</u>	<u>\$ 92,536</u>	<u>\$982,352</u>	<u>\$38,244</u>	<u>\$957,855</u>	<u>\$3,189,767</u>	<u>\$94,556,770</u>

CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2008

	SPECIAL REVENUE FUNDS			
	Gas Tax	Community Activities	HUD Programs	City Affordable Housing
REVENUES				
Taxes:				
Other	\$ -	\$ -	\$ -	\$ -
Intergovernmental	1,847,735	-	1,641,634	-
Charges for services	-	612,550	-	-
Interest and rents	325,715	5,911	-	12,573
Decrease of Pooled Investments due to Market Value	-	-	-	-
Other	-	76,082	558,193	396,279
Total Revenues	<u>2,173,450</u>	<u>694,543</u>	<u>2,199,827</u>	<u>408,852</u>
EXPENDITURES				
Current				
General Administration	-	8,093	562,718	-
Public Works	218,319	-	-	-
Parks and Recreation	-	653,392	-	-
Public Safety:				
Police	-	-	-	-
Fire	-	-	-	-
Library	-	17,295	-	-
Capital outlay	557,818	-	1,056,450	-
Debt service	-	-	-	-
Principal payments	-	-	-	-
Interest and fiscal fees	-	-	-	-
Bond cost expense	-	-	-	-
Total Expenditures	<u>776,137</u>	<u>678,780</u>	<u>1,619,168</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,397,313</u>	<u>15,763</u>	<u>580,659</u>	<u>408,852</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	232,400	-	-	-
Transfers (out)	(977,700)	(1,579)	(401,861)	-
Total Other Financing Sources (Uses)	<u>(745,300)</u>	<u>(1,579)</u>	<u>(401,861)</u>	<u>-</u>
Net change in fund balances	652,013	14,184	178,798	408,852
Fund balances at the beginning of period	<u>7,479,042</u>	<u>694,400</u>	<u>366,440</u>	<u>-</u>
FUND BALANCES AT END OF PERIOD	<u>\$ 8,131,055</u>	<u>\$ 708,584</u>	<u>\$ 545,238</u>	<u>\$ 408,852</u>

DEBT SERVICE FUNDS					CAPITAL PROJECTS FUNDS	
Maintenance	Operating Grants Fund	Special Assessment	Public Facilities Financing Corp.	General Government	Parks and Recreation Facilities	Streets and Highways Improvement
\$ -	\$ -	\$ 1,165,763	\$ -	\$ -	\$ -	\$ -
-	571,609	-	-	-	367,200	3,617,367
700,763	102,151	-	-	-	-	168,891
30,846	-	60,082	129,713	172,950	-	512,713
-	-	-	-	-	-	-
-	-	-	-	320,076	13,779	215,466
<u>731,609</u>	<u>673,760</u>	<u>1,225,845</u>	<u>129,713</u>	<u>493,026</u>	<u>380,979</u>	<u>4,514,437</u>
-	-	-	-	-	-	-
1,541,330	-	-	-	-	-	-
-	108,527	-	-	-	63,147	47,159
-	233,461	-	-	-	-	-
-	28,921	-	-	-	-	-
-	188,860	-	-	-	-	-
-	157,870	-	-	-	797,335	2,720,661
-	-	905,000	1,065,000	2,545,000	-	-
-	-	233,388	1,770,009	956,598	-	-
-	-	805	5,511	4,570	-	-
<u>1,541,330</u>	<u>717,639</u>	<u>1,139,193</u>	<u>2,840,520</u>	<u>3,506,168</u>	<u>860,482</u>	<u>2,767,820</u>
<u>(809,721)</u>	<u>(43,879)</u>	<u>86,652</u>	<u>(2,710,807)</u>	<u>(3,013,142)</u>	<u>(479,503)</u>	<u>1,746,617</u>
752,639	45,333	-	2,768,869	3,129,283	915,000	1,295,000
-	-	-	-	-	(54,919)	(1,270,000)
<u>752,639</u>	<u>45,333</u>	<u>-</u>	<u>2,768,869</u>	<u>3,129,283</u>	<u>860,081</u>	<u>25,000</u>
(57,082)	1,454	86,652	58,062	116,141	380,578	1,771,617
<u>406,604</u>	<u>149,326</u>	<u>2,874,736</u>	<u>3,614,912</u>	<u>4,477,463</u>	<u>442,356</u>	<u>16,466,784</u>
<u>\$ 349,522</u>	<u>\$ 150,780</u>	<u>\$ 2,961,388</u>	<u>\$ 3,672,974</u>	<u>\$ 4,593,604</u>	<u>\$ 822,934</u>	<u>\$ 18,238,401</u>

(Continued)

**CITY OF SANTA CLARA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2008**

	CAPITAL PROJECTS FUNDS			
	Storm Drain Improvement	Fire Department Improvement	Library Department Improvements	Public Facilities
<b>REVENUES</b>				
Taxes:				
Other	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	-
Charges for services	127,302	-	-	219,669
Interest and rents	-	-	-	-
Decrease of Pooled Investments due to Market Value	-	-	-	-
Other	7,400	12,428	-	91,005
<b>Total Revenues</b>	<u>134,702</u>	<u>12,428</u>	<u>-</u>	<u>310,674</u>
<b>EXPENDITURES</b>				
Current				
General Administration	-	-	-	966,794
Public Works	125,403	-	-	-
Parks and Recreation	-	-	-	-
Public Safety:				
Police	-	-	-	-
Fire	-	65,047	-	-
Library	-	-	12,022	-
Capital outlay	822	2,805,011	297,713	3,278,643
Debt service	-	-	-	-
Principal payments	-	-	-	-
Interest and fiscal fees	-	-	-	-
Bond cost expense	-	-	-	-
Total Expenditures	<u>126,225</u>	<u>2,870,058</u>	<u>309,735</u>	<u>4,245,437</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>8,477</u>	<u>(2,857,630)</u>	<u>(309,735)</u>	<u>(3,934,763)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	465,000	147,000	110,000	8,433,798
Transfers (out)	(165,000)	-	-	(90,000)
<b>Total Other Financing Sources (Uses)</b>	<u>300,000</u>	<u>147,000</u>	<u>110,000</u>	<u>8,343,798</u>
<b>Net change in fund balances</b>	<u>308,477</u>	<u>(2,710,630)</u>	<u>(199,735)</u>	<u>4,409,035</u>
<b>Fund balances at the beginning of period</b>	<u>2,679,351</u>	<u>3,320,620</u>	<u>1,605,727</u>	<u>13,567,980</u>
<b>FUND BALANCES AT END OF PERIOD</b>	<u>\$ 2,987,828</u>	<u>\$ 609,990</u>	<u>\$ 1,405,992</u>	<u>\$ 17,977,015</u>

(Continued)

PERMANENT FUNDS					Total Non-Major Governmental Funds
Street Beautification	Special Assessments	Perpetual Care	Endowment Fund	Charitable Trust	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,165,763
-	-	-	-	-	8,265,214
-	-	-	27,605	-	1,739,262
-	22,142	1,694	41,765	170,749	1,486,853
-	-	-	-	-	-
16,649	-	-	-	(166,835)	(166,835)
<u>16,649</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,707,357</u>
<u>16,649</u>	<u>22,142</u>	<u>1,694</u>	<u>69,370</u>	<u>3,914</u>	<u>14,197,614</u>
-	-	-	-	150,755	1,688,360
-	-	-	-	-	1,932,211
-	-	-	-	-	825,066
-	-	-	-	-	-
-	-	-	-	-	233,461
-	-	-	-	-	93,968
41,230	-	-	-	-	218,177
-	-	-	-	-	11,713,553
-	-	-	-	-	4,515,000
-	-	-	-	-	2,959,995
-	-	-	-	-	10,886
<u>41,230</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,755</u>	<u>24,190,677</u>
<u>(24,581)</u>	<u>22,142</u>	<u>1,694</u>	<u>69,370</u>	<u>(146,841)</u>	<u>(9,993,063)</u>
55,000	-	-	-	-	18,349,322
<u>(25,000)</u>	<u>-</u>	<u>(1,694)</u>	<u>(41,765)</u>	<u>-</u>	<u>(3,029,518)</u>
<u>30,000</u>	<u>-</u>	<u>(1,694)</u>	<u>(41,765)</u>	<u>-</u>	<u>15,319,804</u>
5,419	22,142	-	27,605	(146,841)	5,326,741
<u>87,117</u>	<u>960,210</u>	<u>38,244</u>	<u>930,250</u>	<u>3,336,608</u>	<u>63,498,170</u>
<u>\$ 92,536</u>	<u>\$ 982,352</u>	<u>\$ 38,244</u>	<u>\$ 957,855</u>	<u>\$ 3,189,767</u>	<u>\$ 68,824,911</u>

CITY OF SANTA CLARA  
SPECIAL REVENUE MAINTENANCE FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budget</u>	<u>Actual Amount Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Charges for services	\$ 700,876	\$ 700,763	\$ (113)
Interest and rents	-	30,846	30,846
Total Revenues	<u>700,876</u>	<u>731,609</u>	<u>30,733</u>
EXPENDITURES			
Current:			
Public works			
Salary & benefits	95,279	113,132	(17,853)
Material, service & supplies	1,447,752	1,408,918	38,834
Internal service fund charges	53,990	50,259	3,731
Total Public Works	<u>1,597,021</u>	<u>1,572,309</u>	<u>24,712</u>
Total Expenditures	<u>1,597,021</u>	<u>1,572,309</u>	<u>24,712</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(896,145)</u>	<u>(840,700)</u>	<u>55,445</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>752,639</u>	<u>752,639</u>	-
Total Other Financing Sources (Uses)	<u>752,639</u>	<u>752,639</u>	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(143,506)</u>	<u>(88,061)</u>	<u>\$ 55,445</u>
ADJUSTMENTS TO BUDGETARY BASIS:			
Expenditures of prior year encumbrances recognized on the GAAP basis		(65,706)	
Current year encumbrances recognized on the budgetary basis		-	
Net change in accrued liabilities recognized on the GAAP basis		96,685	
Fund balance - July 1	<u>406,604</u>	<u>406,604</u>	
Fund balance - June 30	<u>\$ 263,098</u>	<u>\$ 349,522</u>	

CITY OF SANTA CLARA NON-MAJOR ENTERPRISE FUNDS
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Non-Major Enterprise Funds are used to finance and account for operations and activities performed by designated departments in the City.

#### SOLID WASTE FUND

This fund accounts for the administration of the City's garbage and rubbish collection service.

#### CEMETERY FUND

This fund accounts for the activities of the Mission City Memorial Park.

#### SPORTS AND OPEN SPACE AUTHORITY FUND (SOSA)

SOSA was created by the City Council in 1974 for the acquisition and development of open space within the City and the development of local sports activities.

#### SANTA CLARA GOLF AND TENNIS CLUB FUND (SCG&TC)

The SCG&TC was established in 1984 to account for the operations of the City's Public Golf Course.

#### SANTA CLARA CONVENTION CENTER FUND

The Santa Clara Convention Center Fund was established in 1984 to account for the operations of the City's Convention Center.

CITY OF SANTA CLARA  
NON-MAJOR ENTERPRISE FUNDS  
STATEMENT OF NET ASSETS  
June 30, 2008

	Solid Waste	Cemetery	Sports and Open Space Authority
<b>ASSETS</b>			
Current assets:			
Cash and investments (Note 8):			
Pooled cash and investments	\$ 646,554	\$ (76,618)	\$ 165,153
Investments with fiscal agent	-	-	-
Receivables (net of allowance for uncollectibles):			
Accounts	1,715,664	-	-
Interest	-	-	-
Due from other funds (Note 9B)	945,947	157,913	-
Materials, supplies and prepaids	-	-	-
Total current assets	<u>3,308,165</u>	<u>81,295</u>	<u>165,153</u>
Noncurrent assets:			
Cash designated for construction (Note 8)	510,000	-	-
Investment with fiscal agent (Note 8)	-	-	-
Deposits (Note 8)	-	-	-
Capital assets (Note 10):			
Land and improvements	-	1,139,400	3,883,046
Buildings and improvements	127,362	1,147,621	-
Equipment	361,570	240,228	-
Construction in progress	27,049	-	-
Accumulated depreciation	<u>515,981</u>	<u>2,527,249</u>	<u>3,883,046</u>
	371,575	1,051,658	-
	<u>144,406</u>	<u>1,475,591</u>	<u>3,883,046</u>
Investment in joint ventures (Note 13)	-	-	-
Other assets	169,110	-	-
Total noncurrent assets	<u>823,516</u>	<u>1,475,591</u>	<u>3,883,046</u>
Total assets	<u>4,131,681</u>	<u>1,556,886</u>	<u>4,048,199</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accrued liabilities	1,377,013	1,721	31,242
Interest payable	-	-	-
Accrued compensated absences (Note 2K)	5,139	4,574	-
Due to other funds (Note 9B)	-	-	-
Deferred revenue	-	-	-
Current portion of landfill closure liability (Note 12)	405,000	-	-
Current portion of long-term debt (Note 11)	-	-	-
Total current liabilities	<u>1,787,152</u>	<u>6,295</u>	<u>31,242</u>
Noncurrent liabilities:			
Advance from other funds (Note 9C)	-	2,029,064	-
Landfill closure liability (Note 12)	4,062,754	-	-
Long-term Comp Absences (Note 2K)	33,934	30,199	-
Long-term obligations (Note 11)	-	-	-
Total noncurrent liabilities	<u>4,096,688</u>	<u>2,059,263</u>	<u>-</u>
Total liabilities	<u>5,883,840</u>	<u>2,065,558</u>	<u>31,242</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	144,406	1,475,591	3,883,046
Restricted for contractual obligations	-	-	-
Unrestricted	<u>(1,896,565)</u>	<u>(1,984,263)</u>	<u>133,911</u>
Total net assets	<u>\$ (1,752,159)</u>	<u>\$ (508,672)</u>	<u>\$ 4,016,957</u>

<u>Santa Clara Golf and Tennis Club</u>	<u>Santa Clara Convention Center</u>	<u>TOTAL Non-Major Enterprise Funds</u>
\$ 26,966	\$ 2,046,193	\$ 2,808,248
-	-	-
-	363,078	2,078,742
-	-	-
68,179	-	1,103,860
95,145	2,409,271	68,179
-	-	6,059,029
-	-	-
-	-	510,000
-	-	-
-	-	-
-	-	-
23,681,875	-	5,022,446
623,404	47,329,359	72,286,217
79,915	1,314,990	2,540,192
24,385,194	9,689,883	9,796,847
14,945,981	58,334,232	89,645,702
9,439,213	31,036,297	47,405,511
-	27,297,935	42,240,191
-	-	-
-	-	-
-	-	169,110
9,439,213	27,297,935	42,919,301
9,534,358	29,707,206	48,978,330
209,843	319,005	1,938,824
-	-	-
-	-	9,713
-	1,492,592	1,492,592
-	597,674	597,674
-	-	405,000
-	-	-
209,843	2,409,271	4,443,803
3,874,134	-	5,903,198
-	-	4,062,754
-	-	64,133
-	-	-
3,874,134	-	10,030,085
4,083,977	2,409,271	14,473,888
9,439,213	27,297,935	42,240,191
(3,988,832)	-	-
\$ 5,450,381	\$ 27,297,935	(7,735,749)
		34,504,442

CITY OF SANTA CLARA  
NON-MAJOR ENTERPRISE FUNDS  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008

	Solid Waste	Cemetery	Sports and Open Space Authority
Operating revenues:			
Charges for services	\$ 15,902,491	\$ 464,817	\$ -
Rents and royalties	-	-	1,605,079
Insurance refunds and other	-	-	-
Other	281,651	-	-
Total operating revenues	<u>16,184,142</u>	<u>464,817</u>	<u>1,605,079</u>
Operating expenses:			
Salaries and benefits	806,506	482,646	5,040
Materials, services and supplies	14,805,946	227,816	34,114
General and administrative	-	-	-
Amortization	55,052	-	-
Depreciation	18,566	36,876	-
Total operating expenses	<u>15,686,070</u>	<u>747,338</u>	<u>39,154</u>
Operating income (loss)	<u>498,072</u>	<u>(282,521)</u>	<u>1,565,925</u>
Nonoperating revenues (expenses):			
Interest revenue	-	-	16,937
Net (decrease) in the fair value of investments	-	-	-
Rents and royalties	-	-	-
Joint project contribution	-	-	-
Other revenue	-	-	-
Interest expense	-	-	-
Other expense	-	-	-
Equity in income (losses) of joint ventures	-	-	-
Gain (loss) on retirement of assets	-	-	-
Wholesale power sales	-	-	-
Wholesale power purchases	-	-	-
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>16,937</u>
Income (loss) before contributions and transfers	498,072	(282,521)	1,582,862
Contributions	-	-	-
Transfers in (Note 9A)	678,519	43,459	1,286,513
Transfers (out) (Note 9A)	(55,000)	(7,500)	(2,891,592)
Change in net assets	1,121,591	(246,562)	(22,217)
Total net assets - beginning	<u>(2,873,750)</u>	<u>(262,110)</u>	<u>4,039,174</u>
Total net assets - ending	<u>\$ (1,752,159)</u>	<u>\$ (508,672)</u>	<u>\$ 4,016,957</u>

<u>Santa Clara Golf and Tennis Club</u>	<u>Santa Clara Convention Center</u>	<u>TOTAL Non-Major Enterprise Funds</u>
\$ 2,994,040	\$ 4,292,270	\$ 23,653,618
-	-	1,605,079
114,436	-	396,087
<u>3,108,476</u>	<u>4,292,270</u>	<u>25,654,784</u>
815,491	3,586,106	5,695,789
976,233	1,082,753	17,126,862
-	-	-
-	-	55,052
<u>810,823</u>	<u>1,592,657</u>	<u>2,458,922</u>
<u>2,602,547</u>	<u>6,261,516</u>	<u>25,336,625</u>
<u>505,929</u>	<u>(1,969,246)</u>	<u>318,159</u>
-	72,998	89,935
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>-</u>	<u>72,998</u>	<u>89,935</u>
505,929	(1,896,248)	408,094
-	7,766,895	7,766,895
-	327,540	2,336,031
<u>(1,286,513)</u>	<u>-</u>	<u>(4,240,605)</u>
(780,584)	6,198,187	6,270,415
<u>6,230,965</u>	<u>21,099,748</u>	<u>28,234,027</u>
<u>\$ 5,450,381</u>	<u>\$ 27,297,935</u>	<u>\$ 34,504,442</u>

CITY OF SANTA CLARA  
NON-MAJOR ENTERPRISE FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008

	Solid Waste	Cemetery	Sports and Open Space Authority
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 15,635,594	\$ 464,817	\$ 1,605,079
Payments to suppliers	(14,679,330)	(226,095)	(13,078)
Payments to employees	(806,444)	(503,557)	(5,040)
Internal activity - payments to other funds	-	-	-
Claims paid	-	-	-
Other receipts (payments)	281,651	-	-
Net cash provided by operating activities	431,471	(264,835)	1,586,961
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Wholesale resource sales	-	-	-
Wholesale resource purchases	-	-	-
Charges for Joint project contribution	-	-	-
Expenses for joint project	-	-	-
Increase (decrease) in due from other funds	(34,043)	(9,646)	-
(Increase) decrease in due to other funds	-	-	-
Advances from other funds	-	93,154	-
Transfers in	678,519	43,459	1,286,513
Transfers (out)	(55,000)	(7,500)	(2,891,592)
Cash Flows from Noncapital Financing Activities	589,476	119,467	(1,605,079)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets, net	32,295	(2,455)	-
Principal payments on capital debt	(414,717)	-	-
Interest paid on capital debt	-	-	-
Cash Flows from Capital and Related Financing Activities	(382,422)	(2,455)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Rents and royalties received	-	-	-
Net increase in the fair value of investments	-	-	-
Interest and dividends	-	-	16,937
Payments made by fiscal agent	-	-	-
Deposits made with fiscal agent	-	-	-
Cash Flows from Investing Activities	-	-	16,937
Net increase (decrease) in cash and cash equivalents	638,525	(147,823)	(1,181)
Cash and cash equivalents at beginning of period	518,029	71,205	166,334
Cash and cash equivalents at end of period	\$ 1,156,554	\$ (76,618)	\$ 165,153
Cash and cash equivalents:			
Pooled cash and investments	\$ 646,554	\$ (76,618)	\$ 165,153
Cash designated for construction	510,000	-	-
Total cash and cash equivalents	\$ 1,156,554	\$ (76,618)	\$ 165,153
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ 498,072	\$ (282,521)	\$ 1,565,925
Adjustments to reconcile operating income to net cash provided by operating activities:			
Amortization	55,052	-	-
Depreciation	18,566	36,876	-
Change in assets and liabilities:			
Receivables, net	(266,897)	-	-
Inventory	-	-	-
Accrued liabilities	129,306	1,721	21,036
Compensated absences	(2,628)	(20,911)	-
Deferred revenue	-	-	-
Other receipts	-	-	-
Other expenses	-	-	-
Net cash provided by operating activities	\$ 431,471	\$ (264,835)	\$ 1,586,961
<b>NONCASH TRANSACTIONS:</b>			
Joint Ventures			
Nonoperating income (loss)	\$ -	\$ -	\$ -
Capital Contributions	\$ -	\$ -	\$ -

Santa Clara Golf and Tennis Club	Santa Clara Convention Center	TOTAL Non-Major Enterprise Funds
\$ 2,994,040	\$ 4,402,789	\$ 25,102,319
(1,200,224)	(1,042,763)	(17,161,490)
(815,491)	(3,586,106)	(5,716,638)
-	-	-
-	-	-
105,152	-	386,803
1,083,477	(226,080)	2,610,994
-	-	-
-	-	-
-	-	-
-	-	(43,689)
-	(69,194)	(69,194)
100,000	-	193,154
-	327,540	2,336,031
(1,286,513)	-	(4,240,605)
(1,186,513)	258,346	(1,824,303)
-	-	-
(90,602)	(23,949)	(84,711)
-	-	(414,717)
-	-	-
(90,602)	(23,949)	(499,428)
-	-	-
-	-	-
-	72,998	89,935
-	-	-
-	-	-
-	72,998	89,935
(193,638)	81,315	377,198
220,604	1,964,878	2,941,050
\$ 26,966	\$ 2,046,193	\$ 3,318,248
\$ 26,966	\$ 2,046,193	\$ 2,808,248
-	-	510,000
\$ 26,966	\$ 2,046,193	\$ 3,318,248
\$ 505,929	\$ (1,969,246)	\$ 318,159
-	-	55,052
810,823	1,592,657	2,458,922
-	(11,043)	(277,940)
(9,284)	-	(9,284)
(223,991)	39,990	(31,938)
-	-	(23,539)
-	121,562	121,562
-	-	-
\$ 1,083,477	\$ (226,080)	\$ 2,610,994
\$ -	\$ -	\$ -
\$ -	\$ 7,766,895	\$ 7,766,895

CITY OF SANTA CLARA INTERNAL SERVICE FUNDS
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Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds because they do not do business with outside parties. For the Statement of Activities, the net revenues or expenses of each internal service fund are eliminated by netting them against the operations of the other City departments which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Assets.

However, internal service funds are still presented separately in the Fund financial statements, including the funds below.

#### AUTOMOTIVE SERVICES

This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue for this fund is rental fees charged to the various departments.

#### TECHNICAL EQUIPMENT SERVICES

This fund accounts for the maintenance and replacement of communication and computer equipment used by City departments. The source of revenue for this fund is rental fees charged to the various departments.

#### SPECIAL LIABILITY INSURANCE CLAIMS

This fund was established to account for the cost of claims and administrative costs for the City's self-insured general liability program.

#### WORKERS' COMPENSATION INSURANCE CLAIMS

This fund is used to account for the cost of claims for service connected with injuries and illnesses sustained by members of the City's work force.

CITY OF SANTA CLARA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF NET ASSETS  
JUNE 30, 2008

	Automotive Services	Technical Equipment Services	Special Liability Insurance Claims	Workers' Compensation Insurance Claims	TOTAL
<b>ASSETS</b>					
Current assets:					
Pooled cash and investments	\$ 6,718,633	\$ 248,912	\$ 4,954,648	\$ 2,040,147	\$ 13,962,340
Investments with fiscal agent	-	-	-	-	-
Receivables (net of allowance for uncollectibles):					
Accounts	-	-	-	352,013	352,013
Interest	-	-	-	-	-
Due from other funds	190,638	83,662	-	-	274,300
Materials, supplies and prepaids	370,063	-	-	-	370,063
Total current assets	7,279,334	332,574	4,954,648	2,392,160	14,958,716
Noncurrent assets:					
Capital assets:					
Equipment	18,384,092	2,534,105	-	-	20,918,197
Accumulated depreciation	14,480,626	2,177,497	-	-	16,658,123
	3,903,466	356,608	-	-	4,260,074
Total noncurrent assets	3,903,466	356,608	-	-	4,260,074
Total assets	11,182,800	689,182	4,954,648	2,392,160	19,218,790
<b>LIABILITIES</b>					
Current liabilities:					
Accrued liabilities	15,257	33,247	636,299	4,319,822	5,004,625
Accrued compensated absences	15,408	3,297	-	-	18,705
Due to other funds	3,101,245	308,979	-	-	3,410,224
Total current liabilities	3,131,910	345,523	636,299	4,319,822	8,433,554
Noncurrent liabilities:					
Long-term Portion Est. Claims	-	-	496,267	13,628,770	14,125,037
Long-term Comp Absences	101,743	21,769	-	-	123,512
Long-term Obligations	-	-	-	-	-
Total noncurrent liabilities	101,743	21,769	496,267	13,628,770	14,248,549
Total liabilities	3,233,653	367,292	1,132,566	17,948,592	22,682,103
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	3,903,466	356,608	-	-	4,260,074
Restricted for contractual obligations	-	-	-	-	-
Unreserved	4,045,681	(34,718)	3,822,082	(15,556,432)	(7,723,387)
Total net assets	\$ 7,949,147	\$ 321,890	\$ 3,822,082	\$ (15,556,432)	\$ (3,463,313)

CITY OF SANTA CLARA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008

	Automotive Services	Technical Equipment Services	Special Liability Insurance Claims	Workers' Compensation Insurance Claims	TOTAL
Operating revenues:					
Charges for services	\$ 4,841,475	\$ 650,367	\$ 1,256,730	\$ 2,569,437	\$ 9,318,009
Insurance refunds and other	-	-	509	360,449	360,958
Total operating revenues	4,841,475	650,367	1,257,239	2,929,886	9,678,967
Operating expenses:					
Salaries and benefits	1,628,062	456,221	-	-	2,084,283
Materials, services and supplies	2,110,770	150,023	-	-	2,260,793
General and administrative	-	-	1,693,445	3,579,943	5,273,388
Depreciation and amortization	1,268,239	116,547	-	-	1,384,786
Total operating expenses	5,007,071	722,791	1,693,445	3,579,943	11,003,250
Operating income (loss)	(165,596)	(72,424)	(436,206)	(650,057)	(1,324,283)
Nonoperating revenues (expenses):					
Interest revenue	-	-	471,246	-	471,246
Other revenue	151,887	-	-	-	151,887
Gain (loss) on retirement of assets	(857)	-	-	-	(857)
Interest expense	-	-	(600,425)	-	(600,425)
Total nonoperating revenues	151,030	-	(129,179)	-	21,851
Income (loss) before transfers	(14,566)	(72,424)	(565,385)	(650,057)	(1,302,432)
Transfers in			40,000	192,200	232,200
Transfers (out)	(12,000)	(1,900)	-	-	(13,900)
Change in net assets	(26,566)	(74,324)	(525,385)	(457,857)	(1,084,132)
Total net assets - beginning	7,975,713	396,214	4,347,467	(15,098,575)	(2,379,181)
Total net assets - ending	\$ 7,949,147	\$ 321,890	\$ 3,822,082	\$ (15,556,432)	\$ (3,463,313)

**CITY OF SANTA CLARA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Automotive Services</u>	<u>Technical Equipment Services</u>	<u>Special Liability Insurance Claims</u>	<u>Workers' Compensation Insurance Claims</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 4,844,345	\$ 650,367	\$ 1,256,730	\$ 2,480,520	\$ 9,231,962
Payments to suppliers	(2,203,983)	(142,230)	-	-	(2,346,213)
Payments to employees	(1,605,244)	(470,388)	-	-	(2,075,632)
Internal activity - payments to other funds	(119,367)	(16,830)	-	-	(136,197)
Claims paid	-	-	(1,434,276)	(2,842,109)	(4,276,385)
Other receipts (payments)	151,887	-	-	-	151,887
Net cash provided by operating activities	<u>1,067,638</u>	<u>20,919</u>	<u>(177,546)</u>	<u>(361,589)</u>	<u>549,422</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Increase (decrease) in due from other funds	69,141	(1,337)	-	-	67,804
(Increase) decrease in due to other funds	238,774	18,825	-	-	257,599
Transfers in	-	-	40,000	192,200	232,200
Transfers (out)	(12,000)	(1,900)	-	-	(13,900)
Cash Flows from Noncapital Financing Activities	<u>295,915</u>	<u>15,588</u>	<u>40,000</u>	<u>192,200</u>	<u>543,703</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition and construction of capital assets, net	(652,687)	-	-	-	(652,687)
Principal payment on capital debt	-	-	(20,000,000)	-	(20,000,000)
Interest paid on capital debt	-	-	(600,425)	-	(600,425)
Cash Flows from Capital and Related Financing Activities	<u>(652,687)</u>	<u>-</u>	<u>(20,600,425)</u>	<u>-</u>	<u>(21,253,112)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest and dividends	-	-	627,992	-	627,992
Deposits made with fiscal agent	-	-	19,976,851	-	19,976,851
Cash Flows from Investing Activities	<u>-</u>	<u>-</u>	<u>20,604,843</u>	<u>-</u>	<u>20,604,843</u>
Net increase (decrease) in cash and cash equivalents	710,866	36,507	(133,128)	(169,389)	444,856
Cash and investments at beginning of period	<u>6,007,767</u>	<u>212,405</u>	<u>5,087,776</u>	<u>2,209,536</u>	<u>13,517,484</u>
Cash and investments at end of period	<u>\$ 6,718,633</u>	<u>\$ 248,912</u>	<u>\$ 4,954,648</u>	<u>\$ 2,040,147</u>	<u>\$ 13,962,340</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>					
Operating income (loss)	\$ (165,596)	\$ (72,424)	\$ (436,206)	\$ (650,057)	\$ (1,324,283)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,268,239	116,547	-	-	1,384,786
Change in assets and liabilities:					
Receivables, net	2,871	-	-	(88,917)	(86,046)
Inventory	(49,053)	-	-	-	(49,053)
Accrued liabilities	(163,527)	(9,037)	(237,607)	(13,251,385)	(13,661,556)
Long-term Portion Est. Claims	-	-	496,267	13,628,770	14,125,037
Compensated absences	22,817	(14,167)	-	-	8,650
Other receipts	151,887	-	-	-	151,887
Net cash provided by operating activities	<u>\$ 1,067,638</u>	<u>\$ 20,919</u>	<u>\$ (177,546)</u>	<u>\$ (361,589)</u>	<u>\$ 549,422</u>

<p>CITY OF SANTA CLARA FIDUCIARY FUNDS – AGENCY FUNDS</p>
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Agency Funds, the only fiduciary funds the City has, are presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the City as an agent for individuals, governmental entities, and non-public organizations. These funds include the following:

**EMPLOYEE BENEFIT AND LIABILITY CLEARING**

This fund is used to account for monies collected and disbursed related to employee and retiree health, dental and other fringe benefits.

**SPECIAL ASSESSMENTS**

This fund accounts for monies collected and disbursed from special assessment districts where the City is not obligated for the outstanding debt payments.

**DEPOSITS**

This fund accounts for various deposits including leases, subpoena and utility deposits.

CITY OF SANTA CLARA  
AGENCY FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2008

	Employee Benefit & Liability Clearing	Special Assessments	Deposits	Total
<b>ASSETS</b>				
Pooled cash and investments	\$ 6,473,352	\$ 3,206,200	\$ 4,527,528	\$ 14,207,080
Cash and investments with fiscal agents	-	211,984	-	211,984
Total Assets	<u>\$ 6,473,352</u>	<u>\$ 3,418,184</u>	<u>\$ 4,527,528</u>	<u>\$ 14,419,064</u>
<b>LIABILITIES</b>				
Due to bondholders	\$ -	\$ 3,418,184	\$ -	\$ 3,418,184
Accrued liabilities	6,473,352	-	-	6,473,352
Refundable deposits	-	-	4,527,528	4,527,528
Total Liabilities	<u>\$ 6,473,352</u>	<u>\$ 3,418,184</u>	<u>\$ 4,527,528</u>	<u>\$ 14,419,064</u>

CITY OF SANTA CLARA  
AGENCY FUNDS  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
<u>Employee Benefit and Liability Clearing Fund</u>				
Pooled cash and investments	\$ 8,897,600	\$ 52,135,475	\$ 54,559,723	\$ 6,473,352
Accrued liabilities	\$ 8,897,600	\$ 52,135,475	\$ 54,559,723	\$ 6,473,352
<u>Special Assessments</u>				
Pooled cash and investments	\$ 3,138,253	\$ 1,491,997	\$ 1,424,050	\$ 3,206,200
Cash and investments with fiscal agent	210,582	1,402	-	211,984
Total Assets	\$ 3,348,835	\$ 1,493,399	\$ 1,424,050	\$ 3,418,184
Due to bondholders	\$ 3,348,835	\$ 1,493,399	\$ 1,424,050	\$ 3,418,184
<u>Deposits Fund</u>				
Pooled cash and investments	\$ 4,901,293	\$ 911,323	\$ 1,285,088	\$ 4,527,528
Accrued liabilities	\$ -	\$ -	\$ -	\$ -
Refundable deposits	4,901,293	911,323	1,285,088	4,527,528
Total liabilities	\$ 4,901,293	\$ 911,323	\$ 1,285,088	\$ 4,527,528
<u>Total Agency Funds</u>				
Pooled cash and investments	\$ 16,937,146	\$ 54,538,795	\$ 57,268,861	\$ 14,207,080
Cash and investments with fiscal agent	210,582	1,402	-	211,984
Total Assets	\$ 17,147,728	\$ 54,540,197	\$ 57,268,861	\$ 14,419,064
Due to bondholders	\$ 3,348,835	\$ 1,493,399	\$ 1,424,050	\$ 3,418,184
Accrued liabilities	8,897,600	52,135,475	54,559,723	6,473,352
Refundable deposits	4,901,293	911,323	1,285,088	4,527,528
Total Liabilities	\$ 17,147,728	\$ 54,540,197	\$ 57,268,861	\$ 14,419,064

## ***Statistical Information***

CITY OF SANTA CLARA STATISTICAL SECTION
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This part of the City of Santa Clara's Comprehensive Annual Report provides detailed information to better understand the data presented within the financial statements, note disclosures, and required supplementary information.

CATEGORY

TABLES

FINANCIAL TRENDS

1 - 4

Contains trend information to help the reader understand how the City's financial performance has changed over time.

REVENUE CAPACITY

5 - 8

Contains information to help the reader assess the City's most significant local revenue source, the property tax.

DEBT CAPACITY

9 - 13

Presents information to assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

DEMOGRAPHIC AND ECONOMIC INFORMATION

14 - 15

Offers information to help the reader understand the environment within which the City's financial activities take place.

OPERATING INFORMATION

16 - 19

Contains service and infrastructure data to help the reader understand how the City's financial report relates to the services the City provides and the activities it performs.

**CITY OF SANTA CLARA**  
**Net Assets by Component**  
**Last Seven Fiscal Years**  
**(Accrual Basis of Accounting)**  
**(In Thousands)**

Table 1

	2008	2007	2006	2005	2004	2003	2002
<b>Governmental Activities:</b>							
Investment in Capital Assets, Net of Related Debt	\$ 457,789	\$ 458,933	\$ 442,141	\$ 407,174	\$ 397,364	\$ 339,694	\$ 298,345
Restricted	205,663	161,406	165,684	167,200	157,189	158,375	161,280
Unrestricted	61,695	84,269	79,583	116,132	137,384	185,082	186,952
<b>Total Governmental Activities Net Assets:</b>	<b>\$ 725,147</b>	<b>\$ 704,608</b>	<b>\$ 687,408</b>	<b>\$ 690,506</b>	<b>\$ 691,937</b>	<b>\$ 683,151</b>	<b>\$ 646,577</b>
<b>Business - Type Activities:</b>							
Investment in Capital, Net of Related Debt	\$ 334,006	\$ 313,110	\$ 309,902	\$ 311,767	\$ 328,025	\$ 343,791	\$ 201,959
Restricted	12,865	1,119	1,413	3,741	42,204	4,133	6,816
Unrestricted	484,332	541,778	520,701	548,216	466,855	486,309	527,053
<b>Total Business - Type Activities Net Assets</b>	<b>\$ 831,203</b>	<b>\$ 856,007</b>	<b>\$ 832,016</b>	<b>\$ 863,724</b>	<b>\$ 837,084</b>	<b>\$ 834,233</b>	<b>\$ 735,828</b>
<b>Primary Government</b>							
Investment in Capital, Net of Related Debt	\$ 791,795	\$ 772,043	\$ 752,043	\$ 718,941	\$ 725,389	\$ 683,485	\$ 500,304
Restricted	218,528	162,525	167,097	170,941	199,393	162,508	168,096
Unrestricted	546,027	626,047	600,284	664,348	604,239	671,391	714,005
<b>Total Primary Government Net Assets</b>	<b>\$ 1,556,350</b>	<b>\$ 1,560,615</b>	<b>\$ 1,519,424</b>	<b>\$ 1,554,230</b>	<b>\$ 1,529,021</b>	<b>\$ 1,517,384</b>	<b>\$ 1,382,405</b>

Source: Finance Department, City of Santa Clara.  
The City implemented the new reporting model in fiscal year 2001-2002.  
Until 10 years of data are available, only the available years will be presented.

**CITY OF SANTA CLARA**  
Changes in Net Assets  
Last Seven Fiscal Years  
(Accrual Basis of Accounting)  
(In Thousands)

Table 2

	2008	2007	2006	2005	2004	2003	2002
<b>Expenses:</b>							
<b>Governmental Activities:</b>							
General Administration	\$ 15,563	\$ 9,869	\$ 11,851	\$ 17,332	\$ 10,050	\$ 8,866	\$ 8,336
City Clerk	698	720	566	691	553	558	474
City Attorney	1,065	1,079	1,159	1,079	1,250	1,252	1,152
Human Resources	1,711	1,745	1,722	1,730	1,657	1,737	1,719
Finance	7,943	6,211	6,284	6,172	6,109	7,271	8,141
Public Works	28,394	28,769	27,420	30,752	25,124	27,026	24,295
Parks and Recreation	14,269	12,828	11,925	10,806	10,735	11,043	10,387
Public Safety:							
Police	42,870	41,105	39,218	32,007	31,182	30,154	27,413
Fire	33,855	32,183	31,668	29,063	28,385	28,162	26,432
Communications	**	**	**	3,997	4,076	4,110	3,704
Planning & Inspection	5,353	5,083	5,699	5,471	5,197	4,960	5,150
Library	8,416	8,106	7,960	7,898	5,985	6,015	5,753
Interest on long term debt	11,679	12,338	12,727	13,277	14,529	13,861	15,398
<b>Total Governmental Activities Expenses</b>	<b>171,816</b>	<b>160,036</b>	<b>158,199</b>	<b>160,275</b>	<b>144,832</b>	<b>145,015</b>	<b>138,354</b>
<b>Business-type Activities:</b>							
Utilities:							
Electric -							
Retail	293,619	269,659	250,476	194,382	202,611	204,746	220,655
Wholesale	177,973	197,076	249,500	165,790	207,975	227,284	395,336
Water	21,689	21,397	19,582	18,756	18,556	16,864	15,178
Sewer	12,538	12,181	15,124	9,047	11,902	12,027	20,923
Water Recycling	1,169	2,322	947	853	743	725	463
Solid Waste	15,689	15,508	15,589	14,343	14,563	14,424	15,164
Cemetery	736	709	770	769	788	814	748
Sports and Open Space Authority	39	20	36	26	20	21	22
Santa Clara Golf and Tennis Club	2,603	2,591	2,697	2,528	2,591	2,567	2,631
Santa Clara Convention Center	6,259	6,003	6,163	5,981	5,752	5,702	5,030
<b>Total Business-type Activities Expenses</b>	<b>532,314</b>	<b>527,466</b>	<b>560,884</b>	<b>412,475</b>	<b>465,501</b>	<b>485,174</b>	<b>676,150</b>
<b>Total Primary Government Expenses</b>	<b>\$ 704,130</b>	<b>\$ 687,502</b>	<b>\$ 719,083</b>	<b>\$ 572,750</b>	<b>\$ 610,333</b>	<b>\$ 630,189</b>	<b>\$ 814,504</b>

Note: \*\* Now included in Police  
Source: Finance Office, City of Santa Clara. The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented

**CITY OF SANTA CLARA**  
**Changes in Net Assets**  
**Last Seven Fiscal Years**  
**(Accrual Basis of Accounting)**  
**(In Thousands)**  
**(Continued)**

Table 2

	2008	2007	2006	2005	2004	2003	2002
<b>Program Revenues:</b>							
Governmental Activities:							
Charges for Services:							
General Administration	\$ 9,848	\$ 9,340	\$ 9,888	\$ 9,129	\$ 64	\$ 44	\$ 35
Parks and Recreation	2,591	2,407	2,376	1,846	1,483	1,606	1,422
Planning and Inspection	5,340	4,114	4,778	4,353	3,023	3,513	3,697
Other Programs	6,833	5,943	5,699	6,396	4,815	4,741	5,668
Operating Grants and Contributions	5,485	4,732	5,418	5,465	4,601	3,849	5,810
Capital Gains and Contributions	13,285	5,095	3,762	4,530	7,613	5,800	3,983
<b>Total Governmental Activities Program Revenues</b>	<b>44,382</b>	<b>31,631</b>	<b>31,921</b>	<b>31,721</b>	<b>21,599</b>	<b>19,553</b>	<b>20,615</b>
<b>Business-type Activities:</b>							
Utilities:							
Electric -							
Retail	249,079	251,332	211,111	193,492	188,229	188,222	194,244
Wholesale	172,404	204,723	255,188	170,165	219,798	227,454	424,379
Water	23,001	21,701	19,645	18,885	18,569	16,661	15,302
Sewer	8,330	23,178	12,948	12,065	12,017	12,532	11,920
Water Recycling	3,178	1,504	966	852	897	598	516
Solid Waste	16,185	15,624	14,688	14,405	13,527	12,296	11,795
Cemetery	465	564	511	525	470	468	457
Sports and Open Space Authority	1,605	1,317	1,287	1,436	1,436	1,672	2,569
Santa Clara Golf and Tennis Club	3,108	3,200	3,020	2,913	2,842	3,063	3,197
Santa Clara Convention Center	12,059	6,654	4,033	3,478	3,424	2,813	3,731
<b>Total Business-type Activities Program Revenues</b>	<b>489,414</b>	<b>529,797</b>	<b>523,397</b>	<b>418,097</b>	<b>461,209</b>	<b>465,799</b>	<b>668,110</b>
<b>Total Primary Government Program Revenues</b>	<b>533,796</b>	<b>561,428</b>	<b>555,318</b>	<b>449,818</b>	<b>482,808</b>	<b>485,352</b>	<b>688,725</b>
<b>Net (Expense) Revenue:</b>	<b>(127,434)</b>	<b>(128,405)</b>	<b>(126,278)</b>	<b>(128,554)</b>	<b>(123,233)</b>	<b>(125,462)</b>	<b>(117,739)</b>
Governmental Activities	(42,900)	2,332	(37,048)	7,676	(3,350)	(12,983)	(6,496)
Business-Type Activities	(170,334)	(128,073)	(163,326)	(120,878)	(126,583)	(138,445)	(124,235)
<b>Total Primary Government Net (Expense) Revenue</b>	<b>(170,334)</b>	<b>(128,073)</b>	<b>(163,326)</b>	<b>(120,878)</b>	<b>(126,583)</b>	<b>(138,445)</b>	<b>(124,235)</b>
<b>General Revenue and other changes in Net Assets</b>							
Governmental Activities:							
Taxes:							
Sales	40,516	43,176	38,066	35,696	35,376	33,815	40,104
Ad Valorem Property	54,536	49,736	39,388	39,928	40,868	45,335	44,885
Transient occupancy	11,269	10,542	9,601	7,863	7,160	7,890	-
Other	4,504	4,731	4,856	6,173	5,853	4,953	15,584
Internal Governmental, unrestricted:							
Motor Vehicle In-lieu	507	684	668	2,489	5,267	6,033	5,840
Contribution in-lieu of taxes	14,732	14,722	12,860	11,993	11,905	11,865	11,817
Investment earnings	31,462	33,838	31,544	33,786	38,568	53,861	66,071
Net increase (decrease) in the fair value of investments	1,415	4,674	(16,596)	(1,290)	(25,380)	-	-
Equity in income (losses) of joint ventures	1,225	-	-	-	-	-	-
Rents and Royalties	2,850	2,474	5,001	5,852	13,734	12,095	10,100
Gain (loss) on retirement of assets	4	-	-	-	-	-	-
Other	3,049	2,887	3,803	3,292	4,437	272	4,040
<b>Total Primary Government General Revenue and Transfers</b>	<b>166,069</b>	<b>167,264</b>	<b>129,191</b>	<b>145,782</b>	<b>138,388</b>	<b>176,119</b>	<b>198,441</b>
<b>Change in Net Assets - Total Primary Government</b>	<b>(4,265)</b>	<b>41,191</b>	<b>(34,135)</b>	<b>24,904</b>	<b>11,905</b>	<b>37,674</b>	<b>74,206</b>
<b>Net Assets - Beginning of Year (Restated)</b>	<b>1,560,615</b>	<b>1,519,424</b>	<b>1,553,559</b>	<b>1,528,655</b>	<b>1,516,850</b>	<b>1,382,183</b>	<b>1,307,977</b>
<b>GASB 34 Implementation Adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>96,993</b>	<b>-</b>
<b>Net Assets - End of Year - Total Primary Government</b>	<b>\$ 1,556,350</b>	<b>\$ 1,560,615</b>	<b>\$ 1,519,424</b>	<b>\$ 1,553,559</b>	<b>\$ 1,528,655</b>	<b>\$ 1,516,850</b>	<b>\$ 1,382,183</b>

Source: Finance Office, City of Santa Clara. The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

**CITY OF SANTA CLARA**  
**Fund Balances - Governmental Funds**  
**Last Seven Fiscal Years**  
**(Modified Accrual Basis of Accounting)**  
**(In Thousands)**

Table 3

	2008	2007	2006	2005	2004	2003	2002
General Fund:							
Reserved	\$ 20,858	\$ 22,394	\$ 19,656	\$ 16,266	\$ 15,844	\$ 15,805	\$ 15,925
Unreserved:							
Designated	53,693	54,725	47,802	55,002	65,799	75,612	100,091
Undesignated	1,462	-	-	7,580	689	12,717	13,471
Total General Fund	76,013	77,119	67,458	78,848	82,332	104,134	129,487
All other Governmental Funds:							
Reserved	108,510	78,343	71,167	80,362	74,265	90,301	93,279
Unreserved, reported in:							
Capital projects funds	115,401	136,414	153,503	154,759	170,963	179,398	118,555
Special revenue funds	409	7,033	7,771	11,483	11,119	9,235	1,093
Permanent funds		-	-	4,002	3,949	3,790	3,713
Other purposes	13,195	10,712	8,299	-	-	-	-
Total All Other Governmental Funds	237,515	232,502	240,740	250,606	260,296	282,724	216,640
Total Governmental Funds	\$ 313,528	\$ 309,621	\$ 308,198	\$ 329,454	\$ 342,628	\$ 386,858	\$ 346,127

Source: Finance Office, City of Santa Clara.

The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented

**CITY OF SANTA CLARA**  
**Changes in Fund Balances - Governmental Funds**  
**Last Seven Fiscal Years**  
**(in Thousands)**  
**(Modified Accrual Basis of Accounting)**

**Table 4**

	2008	2007	2006	2005	2004	2003	2002
<b>REVENUES:</b>							
Taxes:							
Sales	\$ 40,516	\$ 43,176	\$ 38,066	\$ 35,596	\$ 35,976	\$ 33,815	\$ 40,104
Ad Valorem Property	54,536	49,736	39,368	39,928	40,668	45,335	44,885
Transient occupancy	11,268	10,542	9,601	7,863	7,160	7,890	-
Other	5,459	5,636	5,716	5,005	5,070	4,184	16,308
Licenses, permits, fees and penalties	5,232	5,199	4,946	5,229	4,736	4,608	4,454
Internal Governmental	9,760	9,685	8,744	8,202	12,947	11,181	15,012
Charges for Services	22,907	20,417	19,851	15,329	14,862	12,283	13,913
Contribution in-lieu of taxes	14,732	14,722	12,861	11,993	11,905	11,865	11,817
Interest and Rents	30,547	29,955	28,253	30,394	31,287	36,939	40,121
Net (decrease) in the fair value of investments	258	1,553	(5,473)	(484)	(10,089)	-	-
Other	3,201	2,567	1,990	4,209	5,429	2,984	3,093
<b>TOTAL REVENUES</b>	<b>198,417</b>	<b>193,178</b>	<b>163,431</b>	<b>163,906</b>	<b>160,151</b>	<b>171,054</b>	<b>189,694</b>
<b>EXPENDITURES</b>							
Current:							
General Administration	27,341	29,253	27,084	29,631	23,230	23,277	23,607
City Clerk	691	755	554	676	541	532	449
City Attorney	1,049	1,230	1,137	1,071	1,280	1,234	1,126
Human Resources	1,682	1,752	1,724	1,722	1,664	1,722	1,690
Finance	7,726	6,224	6,206	6,034	6,023	7,064	7,939
Public Works	16,307	17,012	15,503	15,767	14,670	14,762	14,511
Parks and Recreation	12,732	11,485	10,686	10,249	10,657	10,809	10,064
Public Safety:							
Police	40,089	37,450	34,837	30,776	30,197	28,833	26,155
Fire	31,636	30,157	29,112	27,947	27,711	26,995	25,254
Communications	-	-	-	3,847	4,002	3,956	3,584
Planning & Inspection	5,112	4,514	5,410	5,344	5,200	4,860	5,021
Library	7,008	6,897	6,742	6,891	5,883	5,853	5,618
Capital Outlay	24,991	26,912	29,354	19,242	50,435	48,559	28,920
Debt Service:							
Principal	9,470	8,985	5,918	13,351	12,148	11,423	9,785
Interest	11,294	11,811	12,182	12,984	14,125	13,103	10,944
<b>TOTAL EXPENDITURES</b>	<b>197,128</b>	<b>194,738</b>	<b>186,449</b>	<b>185,532</b>	<b>207,766</b>	<b>203,021</b>	<b>174,677</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,289</b>	<b>(1,560)</b>	<b>(3,018)</b>	<b>(21,626)</b>	<b>(47,615)</b>	<b>(31,937)</b>	<b>15,017</b>
<b>OTHER FINANCING SOURCES (USES):</b>							
Long-term Debt Issuance	-	-	-	-	-	-	-
Bond Premium	-	-	-	-	-	-	-
Payment to Bond Escrow Agent	-	-	-	-	-	-	-
Sale of Capital Assets	-	-	-	-	-	-	-
Transfers in	32,196	25,698	37,055	28,728	25,819	37,061	49,722
Transfers Out	(29,582)	(23,311)	(36,554)	(28,099)	(22,485)	(35,146)	(48,579)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>2,618</b>	<b>2,387</b>	<b>3,202</b>	<b>1,037</b>	<b>3,335</b>	<b>72,669</b>	<b>(1,841)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 3,907</b>	<b>\$ 1,423</b>	<b>\$ (19,816)</b>	<b>\$ (20,689)</b>	<b>\$ (44,230)</b>	<b>\$ 40,732</b>	<b>\$ 13,176</b>
<b>DEBT SERVICE AS A PERCENTAGE OF NON-CAPITAL EXPENDITURES</b>	<b>11%</b>	<b>11%</b>	<b>10%</b>	<b>14%</b>	<b>13%</b>	<b>12%</b>	<b>12%</b>

Note: \*\* Included in Taxes - Other

\*\*\* Included in Interest and Rents

Source: Finance Office, City of Santa Clara

The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

**CITY OF SANTA CLARA**  
**Assessed and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**  
**(In Thousands)**

Table 5

Fiscal Year Ending June 30	Net Local Secured Roll	SBE (2)	Net Unsecured		Net Assessed Valuation (1)	Estimated Actual Value	Ratio of		% of Growth of Assessed Valuation	Total Direct Tax Rate
			Roll				Assessed To Estimated Value	Value		
1998 / 99	\$10,088,177	3,425	\$3,046,790		\$13,138,392	\$13,250,246	99.16%		9.15%	1.09%
1999 / 00	\$10,879,040	2,632	\$3,326,278		\$14,207,950	\$14,320,454	99.21%		8.14%	1.06%
2000 / 01	\$11,822,175	2,497	\$3,463,886		\$15,288,558	\$15,400,547	99.27%		7.61%	1.06%
2001 / 02	\$13,744,409	2,554	\$4,477,383		\$18,224,346	\$18,335,454	99.39%		19.20%	1.08%
2002 / 03	\$15,110,520	2,861	\$4,207,133		\$19,320,514	\$19,429,970	99.44%		6.01%	1.07%
2003 / 04	\$15,283,368	2,803	\$3,639,274		\$18,925,445	\$19,033,631	99.43%		-2.04%	1.07%
2004 / 05	\$14,978,836	2,471	\$2,991,292		\$17,972,599	\$18,081,181	99.40%		-5.03%	1.08%
2005 / 06	\$15,663,135	1,756	\$3,037,319		\$18,702,210	\$18,813,195	99.41%		4.06%	1.15%
2006 / 07	\$17,458,047	1,605	\$2,905,729		\$20,365,381	\$20,478,830	99.45%		13.31%	1.14%
2007 / 08	\$19,148,464	909	\$2,976,265		\$22,125,638	\$22,241,709	99.48%		18.30%	1.08%

Notes: (1) Full cash value

(2) Beginning in fiscal 1989, Chapter 921 of the Statutes of 1987 requires the establishment of a single County-wide tax rate area for the assignment of the assessed value of certain types of State-assessed utility property.

Source: Santa Clara County, Department of Finance

# **CITY OF SANTA CLARA**

Property Tax Rates  
(Per \$100 assessed valuation)  
Direct and Overlapping Governments  
Last Ten Fiscal Years

Table 6

Fiscal Year Ending June 30	Santa Clara County	School Districts	Special Districts	Total
1998 / 99	1.0388%	0.0450%	0.0082%	1.0920%
1999 / 00	1.0319%	0.0225%	0.0085%	1.0629%
2000 / 01	1.0356%	0.0174%	0.0075%	1.0605%
2001 / 02	1.0364%	0.0366%	0.0062%	1.0792%
2002 / 03	1.0388%	0.0252%	0.0072%	1.0712%
2003 / 04	1.0388%	0.0263%	0.0087%	1.0738%
2004 / 05	1.0388%	0.0344%	0.0092%	1.0824%
2005 / 06	1.0388%	0.1001%	0.0078%	1.1467%
2006 / 07	1.0388%	0.0923%	0.0072%	1.1383%
2007 / 08	1.0388%	0.0389%	0.0071%	1.0848%

Tax rate limit: A state constitutional amendment (Proposition 13) commencing with fiscal 1979 provided that the tax rate was limited to 1% of full cash value, levied only by the County and shared with all other jurisdictions. All jurisdictions may levy a tax rate for voter approved debt.

Due date for current taxes: First installment - November 1; second installment - February 1.

Penalties for delinquency: 10% and \$5.00 cost after date taxes become delinquent.

Collected by government unit: County of Santa Clara.

Basis upon which collections are distributed: Taxing jurisdictions assessed valuations and tax rates for voter approved debt to taxing jurisdictions, County rate (1% of full cash value) shared by all jurisdictions.

Compensation paid to collecting government unit: \$424,885

Note: Tax rates stated are the rates applicable to the tax rate area 7-000 as typical tax rate area. within the City. Rates are based on \$100 assessed valuation.

Source: Santa Clara County, Department of Finance

# CITY OF SANTA CLARA

## Principal Property Tax Payers

2007-08 and 2002-03 Comparison for General Fund  
(In Thousands)

Table 7

	2007-08		2002-03	
	Revenue in Thousands	Percent of Total	Revenue in Thousands	Percent of Total
Intel Corporation	\$ 1,509	7.62%	\$ 1,409	9.83%
Applied Materials Inc.	365	1.84%	537	3.75%
Sun Microsystems, Inc.	221	1.12%	259	1.81%
Sobrato Development Company	220	1.11%	311	2.17%
Kaiser Foundation Hospital	215	1.09%		
Silicon Valley California, LLC	211	1.07%		
Agilent Technologies Inc.	195	0.98%	204	1.42%
Marvell Technology, Inc.	190	0.96%		
National Semiconductor Corporation	181	0.91%	195	1.36%
Nvidia Corporation	120	0.61%		
Rivermark Partners LLC			178	1.24%
3Com Corporation			159	1.11%
Exodus Communications Inc.			147	1.03%
BRE San Tomas LLC			132	0.92%
Top Ten Total	\$ 3,427	17.31%	\$ 3,531	24.64%
City Total	\$ 19,803		\$ 14,333	

Source: Santa Clara County Assessor 2007/08 Combined Tax Rolls through HdL Coren & Cone.  
Additional years of historical data are not available

**CITY OF SANTA CLARA**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**  
**(In Thousands)**

Table 8

Fiscal Year Ending June 30	Gross Tax Levy	Current Tax Collections	Percentage of Current Levy Collected	Delinquent Tax Collections	Total Collections
1998 / 99	\$11,713	\$11,543	98.55%	\$124	\$11,667
1999 / 00	\$12,855	\$12,744	99.14%	\$85	\$12,829
2000 / 01	\$13,733	\$13,523	98.47%	\$181	\$13,704
2001 / 02	\$15,848	\$15,795	99.67%	\$14	\$15,809
2002 / 03	\$16,884	\$16,763	99.28%	\$22	\$16,785
2003 / 04	\$16,182	\$16,106	99.53%	(\$3)	\$16,103
2004 / 05	\$15,892	\$15,841	99.68%	\$0	\$15,841
2005 / 06	\$16,624	\$16,565	99.65%	\$0	\$16,565
2006 / 07	\$18,197	\$18,128	99.62%	\$0	\$18,128
2007 / 08	\$19,720	\$19,669	99.74%	\$0	\$19,669

Sources: City of Santa Clara  
Santa Clara County, Department of Finance

**CITY OF SANTA CLARA**  
**Ratios of Outstanding Debt by Type**  
**Last Six Fiscal Years**  
**(In Thousands)**

Table 9

Fiscal Year Ending June 30	Governmental Activities					Redevelopment Agency	Business Activities	Total Primary Government	Population	Debt per Capita	Total Personal Income (\$000)	Debt/Income Ratio
	Public Financing Authority											
	Certificates of Participation	Insurance Funding Bonds	Assessment Bonds	Governmental Activities	Total Governmental Activities							
2002 / 03	\$ 72,895	\$ 20,000	\$ 8,240	\$ 101,135		\$ 159,727	\$ 132,646	\$ 393,508	104,306	\$ 3,773	\$ 2,818,661	13.96%
2003 / 04	70,010	20,000	7,490	97,500		151,214	280,609	529,323	105,831	5,002	2,677,383	19.77%
2004 / 05	66,725	20,000	6,700	93,425		141,938	275,360	510,723	107,200	4,764	2,720,598	18.77%
2005 / 06	63,345	20,000	5,875	89,220		140,225	269,883	499,328	109,106	4,577	2,765,258	18.06%
2006 / 07	59,850	20,000	5,015	84,865		135,325	258,015	478,205	110,771	4,317	3,831,569	12.48%
2007 / 08	56,240	0	4,110	60,350		130,640	230,970	421,960	115,503	3,653	4,121,147	10.24%

Sources: Note 11, Note 2; Statement of Net Assets; MuniServices LLC  
The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

<b>CITY OF SANTA CLARA</b> <b>Population and Assessed Valuation</b> <b>Last Ten Fiscal Years</b> <b>(In Thousands)</b>			Table 10
<b>Fiscal Year Ending June 30</b>	<b>Population</b>	<b>Assessed Value (1)</b>	
1998 / 99	101.9	13,250,246	
1999 / 00	102.7	14,320,454	
2000 / 01	102.9	15,400,547	
2001 / 02	104.6	18,335,454	
2002 / 03	104.3	19,429,970	
2003 / 04	105.8	19,033,631	
2004 / 05	107.2	18,081,181	
2005 / 06	109.1	18,813,195	
2006 / 07	110.8	20,478,830	
2007 / 08	115.5	22,241,708	

Note: (1) Assessed values are estimated actual value.

Sources: State of California, Department of Finance  
Santa Clara County, Department of Finance

**CITY OF SANTA CLARA**  
Computation of Direct and Overlapping Bonded Debt  
June 30, 2008

Table 11

Description	% Applicable	Debt
<b>Direct Debt:</b>		
Certificates of Participation Series 2002 A	100%	\$ 22,805,000
Certificates of Participation Series 2002 B	100%	21,030,000
Certificates of Participation Series 1997	100%	12,405,000
City of Santa Clara 1915 Act Bonds	100%	4,110,000
<b>Total Gross Direct Debt</b>		<b>60,350,000</b>
<b>Overlapping Debt:</b>		
Santa Clara County General Fund Obligations	7.82%	70,022,308
Santa Clara County Pension Fund Obligations	7.82%	30,449,923
Santa Clara Valley Water District Benefit Assessment District	7.82%	12,901,264
Santa Clara County Board of Education Certificates of Participation	7.82%	1,207,490
Foothill DeAnza Community College District	1.36%	6,598,322
San Jose Community College District	0.08%	198,683
West Valley-Mission Community College District	27.76%	23,967,273
Fremont Union High School District	2.89%	3,820,080
Campbell Union High School District	1.61%	2,316,638
Campbell Union School District	3.58%	3,732,500
Cupertino Union School District Certificates of Participation	4.84%	114,903
El Camino Hospital District	1.47%	2,151,566
San Jose Unified School District	0.24%	1,289,088
Cupertino Unified School Districts	4.84%	6,198,924
Santa Clara Unified School District	80.14%	134,291,909
San Jose Unified School District Certificates of Participation	0.24%	284,494
Foothill DeAnza Community College District Certificates of Participation	1.36%	376,793
Santa Clara Unified School District Certificates of Participation	80.14%	10,401,653
Santa Clara County Vector Control District Certificates of Participation	7.82%	334,220
<b>Total Overlapping Debt</b>		<b>310,658,031</b>
<b>Total Gross Direct and Overlapping Bonded Debt</b>		<b>371,008,031 (1)</b>
<b>TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT</b>		<b>\$ 371,008,031</b>
2007 / 08 Assessed Value	\$19,819,160,220	(after deducting \$2,422,549,133 redevelopment incremental value).
<b>Ratios to Assessed Valuation:</b>		
Direct Debt	\$ (60,350,000)	0.305%
Total Gross Debt		1.872%
Total Net Debt		1.872%
State School Building Aid Repayable As of 6/30/08:	\$ -	-

Note: (1) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds.  
Source: California Municipal Statistics, Inc.

**City of Santa Clara**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**  
**(In Thousands)**

Table 12

Fiscal Year Ending June 30	Assessed Valuation	Debt Limit- 15% of Assessed Valuation*	Debt Applicable to Limit	Legal Debt Margin
1998 / 99	13,138,392	1,970,759	20,000	1,950,759
1999 / 00	14,207,950	2,131,193	20,000	2,111,193
2000 / 01	15,288,558	2,293,284	10,096	2,273,284
2001 / 02	18,224,346	2,733,652	20,000	2,723,556
2002 / 03	19,320,514	2,898,077	20,000	2,878,077
2003 / 04	18,925,445	2,838,817	20,000	2,818,817
2004 / 05	17,972,599	2,695,890	20,000	2,675,890
2005 / 06	18,702,210	2,805,332	20,000	2,785,332
2006 / 07	20,365,381	3,054,807	20,000	3,034,807
2007 / 08	22,125,638	3,318,846	0	3,318,846

Notes: \* Section 1309 of the City Charter of the City states: "Bonded Debt Limit.

The bonded indebtedness of the City may not in the aggregate exceed the sum of fifteen percent (15%) of the total assessed valuation of property within the City, exclusive of revenue bonds or any indebtedness that has been or may hereafter be incurred for the purposes of acquiring, constructing, extending, or maintaining municipally owned utilities for which purposes a further indebtedness may be incurred by the issuance of bonds, subject only to the provisions of the State Constitution and this Charter."

Sources: Santa Clara County, Department of Finance  
City of Santa Clara

# CITY OF SANTA CLARA

## Pledged Revenue Coverage Electric Revenue Bond

Last Six Fiscal Years  
(In Thousands)

Table 13

Fiscal Year Ending June 30	Gross Revenue (1)	Less Operating Expense (2)	Net Revenue Available For Debt Service	Principal	Interest	Letter Of Credit Fees	Total	Coverage (3)
2002 / 03	(4) \$ 247,856	\$ 198,572	\$ 49,284	\$ 6,675	\$ 4,972	\$ 208	\$ 11,855	4.16
2003 / 04	208,042	178,600	29,442	5,160	8,432	262	13,854	2.13
2004 / 05	253,561	217,981	35,580	5,840	10,389	262	16,491	2.16
2005 / 06	(5) 283,611	251,676	31,935	11,080	11,216	266	22,562	1.42
2006 / 07	297,586	246,378	51,208	11,820	11,346	212	23,378	2.19
2007 / 08	(6) 318,895	283,206	35,689	12,370	11,295	2,423	26,088	1.37

Notes: (1) Gross revenue includes operating and nonoperating revenues including amounts on deposit in other unrestricted funds of the Electric Utility approved by resolution plus capitalized interest earnings less interest earnings on collateralized escrow securities.

(2) Direct expense includes operating expenses less depreciation and amortization and contribution-in-lieu to the General Fund, uncapitalized interest expense (other than revenue bonds) and letter of credit fees.

(3) The required coverage is 1.25

(4) In fiscal year 2002 / 03 Principal includes the cost of advanced refunding of the 1991 B Revenue Bonds for \$10.32 million.

(5) In fiscal year 2005 / 06 Gross Revenue also includes \$21.5 million fund transfer from Cost Reduction Fund to pay for the Enron settlement cost. Direct expense includes Enron's net settlement cost of \$21.5 million.

(6) In fiscal year 2007 / 08 Letter of Credit include \$1.611 million refunding premium for 1998A, \$302k issuance cost for 2008B and \$315K issuance cost for 2008A.

Source: City of Santa Clara

**CITY OF SANTA CLARA**  
Demographic and Economic Statistics  
Last Ten Calendar Years

Table 14

As of June 30	Population (1)	Personal Income (2)	Per Capita Buying Income	Median Age	Public School Enrollment	County Unemployment Rate	City Unemployment Rate
1998 / 99	101,877	2,169,160	21,292	33.7	14,182	3.2%	3.0%
1999 / 00	102,682	2,319,073	22,585	34.1	14,338	3.0%	2.8%
2000 / 01	102,895	2,482,753	24,129	34.3	14,308	2.0%	1.9%
2001 / 02	104,616	2,920,983	27,921	34.5	13,565	4.5%	4.2%
2002 / 03	104,306	2,818,661	27,023	34.2	13,321	8.4%	7.9%
2003 / 04	105,831	2,677,383	25,282	35.2	13,188	8.2%	7.7%
2004 / 05	107,200	2,720,598	26,465	35.7	13,839	6.2%	5.9%
2005 / 06	109,106	2,765,258	26,513	35.3	13,317	5.5%	4.8%
2006 / 07	110,771	3,831,569	34,590	-	13,366	5.0%	4.3%
2007 / 08	115,503	4,121,147	35,680	-	13,802	4.7%	4.3%

Note: (-) Data unavailable

Sources: (1) Population and the Unemployment Rate are provided by California Department of Finance Projections.  
(2) FY 2006-07 & 2007-08 Income Data is determined using 2005 American Community Survey Data and adjusted for inflation in accordance with rates provided by the Bureau of Labor Statistics. Prior years are from Sales & Marketing Power Management- Survey Of Buying Power and previously published CAFR reports  
2006-07 & 2007-08 Source: MuniServices, LLC

# CITY OF SANTA CLARA

Principal Private Employers  
Current Year and Five Years Ago

Table 15

Company	2008		2003	
	Number of Employees	Percentage of Total City Employment	Number of Employees	Percentage of Total City Employment
Sun Microsystems, Inc.	6,000	11.2%	3,500	6.8%
Intel Corporation	5,700	10.7%	8,000	15.6%
Advanced Cardiovascular Systems	4,200	7.9%		
Kaiser Foundation Hospitals	2,317	4.3%		
Coast Personnel	1,895	3.5%	1,895	3.7%
National Semiconductor Inc.	1,700	3.2%	2,000	3.9%
Asianinfo Holdings Inc.	1,500	2.8%		
Applied Materials	1,150	2.2%		
WebEX Communications Inc.	1,108	2.1%		
Coherent Inc.	1,082	2.0%		
Nortel Networks				
Iseva Inc.				
Guidant Corp.			3,000	5.8%
Agilent Technologies			1,500	2.9%
Sanmina-SCI Corp.			1,000	1.9%
3Com Corporation			1,000	1.9%
Integrated Device Technology			1,200	2.3%
NEC Electronics			900	1.8%
Analog Devices				
Total Top Ten	26,652	49.9%	23,995	46.6%
All Others	26,748	50.1%	27,305	53.4%
Total Employment	53,400	100.0%	51,300	100.0%

Sources: City of Santa Clara The City implemented the new reporting model in fiscal year 2001-2002. Until 10 years of data are available, only the available years will be presented.

2003-2008 Northern California Business Directory  
California Employment Development Department

**CITY OF SANTA CLARA**  
Full-time Equivalent Budgeted City Employees by Program/Function  
Last Six Fiscal Years

Table 16

	Fiscal Year Ending June 30				
	2008	2007	2006	2005	2004
City Council	8.50	8.50	8.50	8.50	8.50
City Clerk	4.00	4.00	4.00	4.00	4.00
City Attorney	7.00	7.00	7.00	7.00	7.00
City Manager	9.00	8.00	8.00	8.00	8.00
Information Technology	4.00	4.00	4.00	4.00	4.00
Human Resources	15.00	15.00	15.00	15.00	16.00
Finance	63.00	54.00	54.00	55.00	55.00
Parks & Recreation	83.00	84.00	84.00	84.00	86.00
Library	42.75	42.75	42.75	42.75	38.75
Planning & Inspection	39.00	39.00	39.00	39.00	41.00
Engineering	38.00	44.00	44.67	44.67	46.00
Purchasing		9.00	9.00	9.00	9.00
Building Maintenance	13.50	13.50	13.50	13.50	13.50
Street	64.00	58.00	58.00	58.00	59.00
Automotive Services	19.00	19.00	19.00	19.00	20.00
Police	227.00	227.00	227.00	199.00	202.00
Fire	179.50	179.50	179.50	179.50	180.00
Communications		*	*	29.00	29.00
Electric Utility	144.00	144.00	144.00	144.00	133.00
Water Utility	45.50	45.50	45.50	44.50	44.50
Sewer Utility	14.50	13.50	13.50	13.50	13.50
<b>TOTAL</b>	<b>1,020.25</b>	<b>1,019.25</b>	<b>1,019.92</b>	<b>1,020.92</b>	<b>1,021.75</b>

Note: \* Included in Police starting in 2005-06

Source: City of Santa Clara Annual Budget 2007-2008

Until 10 years of data are available, only the available years will be presented.

**CITY OF SANTA CLARA**  
**Operating Indicators by Function/Activity**  
**Last Six Fiscal Years**

Table 17

	Fiscal Year Ending June 30					
	2008	2007	2006	2005	2004	2003
<b>Culture and Recreation:</b>						
Number of library items circulated	2,564,484	2,545,942	2,657,430	2,625,227	2,188,632	2,347,996
<b>Fire Protection:</b>						
Number of calls answered	7,614	7,886	6,549	6,065	5,933	6,391
Number of inspections conducted	8,436	9,041	10,460	10,026	10,290	8,339
<b>Police Protection:</b>						
Number of calls for service	57,769	55,909	58,021	55,814	36,832	38,891
<b>Electric System:</b>						
Maximum annual demand	479.6 MW	486.5 MW	461.2 MW	399.7 MW	405 MW	419 MW
Total annual energy	2,984,161 Mwh	2,931,407 Mwh	2,764,831 Mwh	2,573,056 Mwh	2,507,000 Mwh	2,415,189 Mwh
<b>Sewer System:</b>						
Number of service connections	26,084	26,014	25,920	25,897	25,531	23,227
Peak flow (5-day average, WPCP)	109 MGD	125 MGD	118 MGD	109 MGD	109 MGD	119 MGD
Maximum daily capacity of treatment plant (WPCP)	167 MGD	167 MGD	167 MGD	167 MGD	167 MGD	167 MGD
<b>Water System:</b>						
Number of service accounts	25,310	25,277	25,136	24,905	26,478	24,475
Daily average consumption	21 MG	22 MG	21 MG	21 MG	21 MG	21 MG
Maximum daily capacity of plant:						
Potable Water	87 MGD	89 MGD	89 MGD	87 MGD	80 MGD	80 MGD
Recycled Water	15 MGD	15 MGD	15 MGD	15 MGD	15 MGD	15 MGD

Source: City of Santa Clara  
Until 10 years of data are available, only the available years will be presented.

**CITY OF SANTA CLARA**  
**Capital Assets Statistics by Function**  
**Last Six Fiscal Years**

Table 18

	Fiscal Year Ending June 30					
	2008	2007	2006	2005	2004	2003
<b>Culture and Recreation:</b>						
Number of community centers	4	4	4	4	4	4
Number of parks	32	32	31	30	30	28
Park acreage	282	282	282	277	277	265
Number of golf courses	1	1	1	1	1	1
Number of swimming pools	4	4	4	4	4	4
Number of tennis courts	28	28	28	27	27	27
Number of lawn bowling greens	1	1	1	1	1	1
Number of lighted soccer fields	3	3	3	3	3	0
Number of lighted softball fields	7	7	7	7	7	7
Number of neighborhood park buildings	8	8	8	8	8	8
Number of gymnastic centers	1	1	1	1	1	1
Number of skate parks	1	1	1	1	1	1
Number of community theaters	1	1	1	1	0	0
Number of libraries	2	2	2	2	2	2
Cemetery	2	2	2	2	2	2
<b>Fire Protection:</b>						
Number of stations	10	10	10	10	10	10
<b>Police Protection:</b>						
Number of stations	2	2	2	2	2	2
<b>Electric System:</b>						
Number of meters	51,514	50,858	50,069	49,775	48,753	48,489
Miles of high voltage lines	548	479	479	477	475	471
Number of substations	17	16	16	14	14	14
<b>Sewerage System:</b>						
Miles of sanitary sewers	279	282	282	282	277	275
Miles of storm sewers	140	138	138	138	137	137
Number of treatment plants	1 Tertiary	1 Tertiary	1 Tertiary	1 Tertiary	1 Tertiary	1 Tertiary
<b>Water System:</b>						
Miles of water mains	335	335	334	301	301	298
Number of fire hydrants	3,285	3,261	3,249	3,249	3,143	3,143
Miles of recycled water mains	20	20	19	19	19	19
<b>Streets:</b>						
Miles of Streets	249	249	249	249	248	248
Number of Street Lights	8,481	8,181	8,179	8,170	8,163	8,171
Number of Traffic Signals	187	187	184	182	178	175

Source: City of Santa Clara  
Until 10 years of data are available, only the available years will be presented.

**CITY OF SANTA CLARA**  
Statement of Insurance Coverage  
June 30, 2008

Table 19

TYPE OF POLICY	INSURANCE COMPANY	LIMITS**	ANNUAL PREMIUM	TERM YEARS	EXPIRATION DATE
<u>Liability</u>					
Comprehensive General	Self-insured (Since 1987)	\$5 million	n/a	-	Ongoing
Excess Liability	Everest National and American Merchants	\$20 million	\$222,063	1	7/1/2009
Workers' Compensation	Self-insured (since 1973)	\$500 thousand	n/a	-	Ongoing
Excess Workers' Compensation	CSAC Excess Ins. Authority	\$300 million	\$349,948	1	7/1/2008
<u>Property Coverage</u>					
All Risks, including flood, excluding earthquake	Public Entity Property Insurance Program (PEPIP); Lexington Insurance and various excess carriers	\$1 billion	\$384,432	1	7/1/2008
Boiler and Machinery	Lexington Insurance Co., CNA Insurance Co., and Foreign Excess Insurance Companies	\$100 million	\$29,754	1	7/1/2008
<u>Financial Loss Bonds</u>					
Faithful Performance, Crime Coverage Bond	CSAC Excess Ins. Authority and Lexington Insurance	\$10 million	\$7,959	1	7/1/2008

Notes: \*\* Limits are per occurrence  
Source: City of Santa Clara

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**CITY OF SANTA CLARA**

**ELECTRIC UTILITY ENTERPRISE FUND  
(SILICON VALLEY POWER)**

**FOR THE YEARS ENDED JUNE 30, 2008 and 2007**

**CITY OF SANTA CLARA**

**ELECTRIC UTILITY ENTERPRISE FUND  
SILICON VALLEY POWER**

**FOR THE YEARS ENDED JUNE 30, 2008 and 2007**

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VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

VALUE THE DIFFERENCE

## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Santa Clara  
Santa Clara, California

We have audited the accompanying statements of net assets of the City of Santa Clara, California, Electric Utility Enterprise Fund (Silicon Valley Power) as of and for the years ended June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit's in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the fund financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit's provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Silicon Valley Power are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the City of Santa Clara that is attributable to the transactions of the Electric Utility Enterprise Fund. It does not purport to, and does not present fairly the financial position of the City as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly in all material respects the financial position of Silicon Valley Power as of June 30 2008 and 2006, and the results of its operations and its cash flows for the year's then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Vavrinek, Trine, Day & Co., L.L.P.*

Pleasanton, California  
December 2, 2008

**CITY OF SANTA CLARA  
ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

---

This section of the Silicon Valley Power financial statements presents a narrative overview and analysis of the financial activities for the fiscal year. Please read this document in conjunction with the accompanying Basic Financial Statements.

Silicon Valley Power is a separate enterprise fund of the City of Santa Clara, and was established to account for the electric power transactions of the City of Santa Clara. Silicon Valley Power owns power generation facilities, has investments in joint ventures that produce electric power, and trades power on the open market. These efforts are directed toward ensuring its retail customers--the citizens, organizations and businesses of the City of Santa Clara--a reliable source of electric power at reasonable rates.

Silicon Valley Power has been affected by the deregulation of the electric power industry in California, as discussed in detail in Note 2 to its financial statements.

**OVERVIEW OF SILICON VALLEY POWER'S BASIC FINANCIAL STATEMENTS**

The Basic Financial statements are in two parts:

- 1) Management's Discussion and Analysis (this part),
- 2) The Basic Financial Statements, which include the entity-wide financial statements, along with the Notes to these financial statements.

The Basic Financial Statements comprise the entity-wide Financial Statements. These financial statements provide both a short-term and a long-term view of Silicon Valley Power's financial activities and financial position.

The entity-wide Financial Statements comprise the Statement of Net Assets and the Statement of Changes in Net Assets. The Statement of Net Assets provides information about the financial position of Silicon Valley Power as a whole, including all its long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Changes in Net Assets provides information about all Silicon Valley Power's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of the program.

**CITY OF SANTA CLARA  
ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

**FISCAL YEAR 2007-08 FINANCIAL HIGHLIGHTS—ENTITY-WIDE AND FUND BASIS**

The following is summarized financial information from the Statement of Net Assets (Table 1) and the Statement of Changes in Net Assets (Table 2).

**Table 1  
Net Assets at June 30, 2008  
(In Millions)**

<u>Description</u>	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>		<u>2006</u>
			<u>Amount</u>	<u>%</u>	
Cash and investments	\$ 345.4	\$ 413.8	\$ (68.4)	-16.5%	\$ 440.6
Other assets	93.1	89.6	3.5	3.9%	81.0
Capital assets	<u>463.8</u>	<u>461.2</u>	<u>2.6</u>	<u>0.6%</u>	<u>471.6</u>
 Total Assets	 <u>902.3</u>	 <u>964.6</u>	 <u>(62.3)</u>	 <u>-6.5%</u>	 <u>993.2</u>
Long-term debt outstanding (including current portion)	223.1	253.2	(30.1)	-11.9%	264.6
Other liabilities	<u>53.0</u>	<u>53.0</u>	<u>-</u>	<u>0.0%</u>	<u>82.2</u>
Total liabilities	<u>276.1</u>	<u>306.2</u>	<u>(30.1)</u>	<u>-9.8%</u>	<u>346.8</u>
Net assets:					
Invested in capital assets, net of debt	250.3	236.2	14.1	6.0%	234.5
Restricted for projects	11.3	-	11.3		0.5
Unrestricted	<u>364.6</u>	<u>422.2</u>	<u>(57.6)</u>	<u>-13.6%</u>	<u>411.4</u>
Total net assets	<u>\$ 626.2</u>	<u>\$ 658.4</u>	<u>\$ (32.2)</u>	<u>-4.9%</u>	<u>\$ 646.4</u>

**CITY OF SANTA CLARA  
ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

Table 2  
Changes in Net Assets  
(In Millions)

<u>Description</u>	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>		<u>2006</u>
			<u>Amount</u>	<u>%</u>	
Revenues:					
Retail	\$ 240.1	\$ 229.3	\$ 10.8	4.7%	\$ 202.2
Wholesale	172.4	204.7	(32.3)	-15.8%	255.2
Investment earnings	15.6	17.9	(2.3)	-12.8%	18.0
Net increase (decrease) in fair value of investment	1.1	2.9	(1.8)	127.9%	(10.4)
Rents and royalties	2.5	2.1	0.4	19.0%	2.1
Other	9.0	22.0	(13.0)	-59.1%	11.8
Total revenues	<u>440.7</u>	<u>478.9</u>	<u>(38.2)</u>	-8.0%	<u>489.8</u>
Expenses:					
Retail	276.1	252.5	23.6	9.3%	249.3
Wholesale	178.0	197.1	(19.1)	-9.7%	249.5
Interest on long term debt	11.8	12.1	(0.3)	-2.5%	12.1
Other	6.3	4.3	2.0	46.5%	3.1
Total expenses	<u>472.2</u>	<u>466.0</u>	<u>6.2</u>	1.3%	<u>514.0</u>
Increase (decrease) in net assets before transfers	(31.5)	12.9	(44.4)	153.3%	(24.2)
Transfers in (out)	(0.7)	(0.9)	0.2	-22.2%	(2.2)
Increase (decrease) in net assets	<u>(32.2)</u>	<u>12.0</u>	<u>(44.2)</u>	<u>145.5%</u>	<u>(26.4)</u>
Net assets - 7/1	658.4	646.4	12.0	1.9%	672.8
Net assets - 6/30	<u>\$ 626.2</u>	<u>\$ 658.4</u>	<u>\$ (32.2)</u>	-4.9%	<u>\$ 646.4</u>

Silicon Valley Power retail operating revenues were \$240.1 million in fiscal year 2007-08, \$229.3 million in fiscal year 2006-07, and \$202.2 million in fiscal year 2005-06, reflecting increases of approximately 4.7%, and 13.4% from fiscal years 2006-07 and 2005-06, respectively. The main reason for the increase in fiscal year 2007-08 was higher power consumption by the industrial/commercial sector combined with an increase in utility rates of 3% in 2008.

In December 2007, the City Council adopted a 3% rate increase to be effective January 2008 and a further 3% increase to be effective January 2009. The primary reason for this increase is rise in cost and use of fuel for electric generation, combined with a significant reduction in energy available from Western Power Administration.

**CITY OF SANTA CLARA  
ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

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Retail operating expenses were \$276.1 million in fiscal year 2007-08, \$252.5 million in fiscal year 2006-07, and \$249.3 million in fiscal year 2005-06, increases of \$23.6 million or 9.3% and \$3.2 million or 1.3% from fiscal years 2005-06 and 2006-07, respectively. The operating expenses for fiscal year 2007-08 were higher primarily due to increases in purchased power costs, salaries and benefits costs.

Revenues of wholesale power operations were \$172.4 million in fiscal year 2007-08, \$204.7 million in fiscal year 2006-07, and \$255.2 million in fiscal year 2005-06. Concurrently, the cost of wholesale power purchases were \$178.0 million in current fiscal year, \$197.1 million in fiscal year 2006-07, and \$249.5 million in fiscal year 2005-06. The wholesale power market has stabilized in recent years compared to the peak years of the power crisis experienced by California in 2001.

Interest revenues were \$15.6 million in fiscal year 2007-08, \$17.9 million in fiscal year 2006-07, and \$18.0 million in fiscal year 2005-06. The decrease in the current fiscal year is primarily due to the Electric Utility cash outflow for bonds early redemption and operating expenses. Interest expense was \$11.7 million in fiscal year 2006-07, \$12.1 million in fiscal year 2006-07, and \$12.1 million in fiscal year 2005-06.

In fiscal year 2006-07, there is no provision for the Disputed Schedule Coordination Services (SCS). The SCS was reduced by \$10.9 million resulting from the settlement of the dispute between the City and Pacific Gas and Electric Company (PG&E) in the fiscal year 2005-06. The City provided \$24 million for the SCS dispute in fiscal year 2003-04 that was reduced by \$13.1 million in fiscal year 2004-05. The additional reduction of \$10.9 million in the fiscal year 2005-06 decreased the Provision for Disputed Schedule Coordination Services to zero balance. The City will release the Escrow Account Funds held under Escrow Agreement with PG&E on 07/01/2008. The amount will be \$2,389,827.44.

The Electric Utility Fund had \$626.2 million in net assets at June 30, 2008, a decrease of \$32.2 million from the prior fiscal year. Of this amount, \$250.3 million was invested in capital assets, net of related debt; \$11.3 million was restricted for contractual obligation, and \$364.6 million was unrestricted. At June 30, 2007, the Electric Utility Fund had \$658.4 million in net assets, an increase of \$12.0 million from fiscal year 2005-06.

The Electric Utility Fund is a participant in a number of joint ventures such as Northern California Power Agency (NCPA), the Transmission Agency of Northern California (TANC), M-S-R Public Power Agency (MSR).

#### **CAPITAL ASSETS**

At the end of fiscal 2007-08, Silicon Valley Power had \$463.8 million, net of depreciation, invested in capital assets, with a significant amount in power generation facilities and the remainder in transmission and distribution assets. At June 30, 2008, Silicon Valley Power had various projects completed or under construction. In the fiscal year 2007-08, Capital Improvement Projects Budget includes appropriations for a significant investment in substation improvements in the coming years.

Further detail may be found in Note 4 to the financial statements.

**CITY OF SANTA CLARA  
ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2008**

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**DEBT ADMINISTRATION**

Each of Silicon Valley Power's debt issues is discussed in detail in Note 5 to the financial statements. At June 30, 2008, Silicon Valley Power's debt is comprised of four issues of Revenue Bonds with outstanding principal balances of \$223.1 million at that date. These Bonds are secured by electric revenues earned by Silicon Valley Power, and mature in fiscal years 2010 through 2035. Details of each of these Bond issues may be found in Note 5 to the financial statements.

**ECONOMIC OUTLOOK AND MAJOR INITIATIVES**

The economy of the City of Santa Clara and its major initiatives for the coming year are discussed in detail in the City's Comprehensive Annual Financial Report.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

These Basic Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Silicon Valley Power's finances. Questions about these Statements should be directed to the City of Santa Clara Finance Department, at 1500 Warburton Avenue, Santa Clara, CA 95050.

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) STATEMENTS OF NET ASSETS JUNE 30, 2008 AND 2007

ASSETS	2008	2007
Current assets:		
Pooled cash and investments (Note 3)	\$ 332,527,026	\$ 381,316,951
Investment with fiscal agent (Note 3)	1,188,419	13,261,909
Receivables (net of allowances):		
Accounts	55,324,547	50,001,594
Interest	3,304,603	4,448,178
Due from other funds of the City of Santa Clara (Note 1E)	1,720,005	1,551,471
Inventory of material and supplies (Note 1F)	10,881,428	10,543,312
Total current assets	<u>404,946,028</u>	<u>461,123,415</u>
Noncurrent assets:		
Capital assets (Note 4)		
Land	13,550,593	9,677,134
Buildings, improvements and infrastructure	689,124,619	677,768,143
Equipment	8,709,276	7,547,869
Construction in progress	3,796,643	1,427,991
Accumulated depreciation	(251,372,058)	(235,223,304)
Total capital assets (Net of accumulated depreciation)	<u>463,809,073</u>	<u>461,197,833</u>
Other noncurrent assets:		
Investments in joint ventures (Note 6)	18,295,100	19,781,167
Investments with fiscal agent (Note 3)	8,427,852	14,899,771
Deposits (Note 3)	4,441,776	4,292,082
Other assets	2,375,961	3,259,177
Total other noncurrent assets	<u>33,540,689</u>	<u>42,232,197</u>
Total noncurrent assets	<u>497,349,762</u>	<u>503,430,030</u>
Total assets	<u>902,295,790</u>	<u>964,553,445</u>
LIABILITIES		
Current liabilities:		
Accrued liabilities	48,293,982	46,144,098
Interest payable	2,220,872	4,517,792
Deposit liability	213,397	217,860
Accrued compensated absences	291,559	271,726
Current portion of long-term debt (Note 5)	3,580,000	12,370,000
Total current liabilities	<u>54,599,810</u>	<u>63,521,476</u>
Noncurrent liabilities:		
Long-term portion accrued compensated absences	1,925,191	1,861,493
Long-term debt (Note 5)	219,527,437	240,821,647
Total noncurrent liabilities	<u>221,452,628</u>	<u>242,683,140</u>
Total liabilities	<u>276,052,438</u>	<u>306,204,616</u>
NET ASSETS		
Invested in capital assets, net of related debt	250,317,907	236,167,866
Restricted for projects	11,324,266	-
Unrestricted net assets	364,601,179	422,180,963
Total net assets	<u>\$ 626,243,352</u>	<u>\$ 658,348,829</u>

See accompanying notes to the financial statements.

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Operating revenues:		
Residential sales	\$ 20,748,234	\$ 20,137,122
Commercial sales	12,331,362	12,427,539
Industrial sales	203,848,066	193,932,630
Other operating revenues	3,165,757	2,821,281
Total operating revenues	240,093,419	229,318,572
Operating expenses:		
Operations	42,177,226	44,045,489
Maintenance	9,745,727	8,734,464
Purchased power	206,515,794	182,490,270
Amortization	1,254,764	1,158,705
Depreciation	16,347,676	16,136,531
Total operating expenses	276,041,187	252,565,459
Operating Income (Loss)	(35,947,768)	(23,246,887)
Nonoperating revenues (expenses):		
Interest revenue	15,590,392	17,911,586
Net increase (decrease) in the fair value of investments	1,096,201	2,933,179
Interest expense	(11,740,804)	(12,086,093)
Wholesale resources sales (Note 2)	172,404,300	204,723,026
Wholesale resources purchases (Note 2)	(177,972,817)	(197,076,082)
Equity in income (losses) of joint ventures	(1,486,067)	3,913,467
Rents and royalties	2,469,000	2,080,871
Mandated program receipts and other revenues	10,471,469	10,007,533
Loss on retirement of assets	-	8,092,454
Mandated program disbursements and other expenses	(6,239,683)	(4,369,314)
Total nonoperating revenues, net	4,591,991	36,130,627
Income (loss) before transfers	(31,355,777)	12,883,740
Transfers out	(749,700)	(903,895)
Net income (loss)	(32,105,477)	11,979,845
Net assets, beginning of year	658,348,829	646,368,984
Net assets, end of year	\$ 626,243,352	\$ 658,348,829

See accompanying note to the financial statements.

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 233,511,419	\$ 227,177,718
Payments to suppliers	(241,008,499)	(251,969,947)
Payments to employees	(16,886,969)	(17,327,917)
Other receipts	4,176,652	6,728,404
Net cash from operating activities	(20,207,397)	(35,391,742)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Wholesale resources sales	172,404,300	204,723,026
Wholesale resources purchases	(177,972,817)	(197,076,082)
Increase (decrease) in due from other funds	(168,534)	33,653
Transfers (out)	(749,700)	(903,895)
Cash Flows from Noncapital Financing Activities	(6,486,751)	6,776,702
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets, net	(18,126,509)	903,889
Principal payments on debt	(27,045,000)	(11,820,000)
Interest paid on debt	(15,894,765)	(11,503,327)
Cash Flows from Capital and Related Financing Activities	(61,066,274)	(22,419,438)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Rents and royalties received	2,454,788	2,093,195
Interest and dividends	16,874,100	16,525,977
Net increase (decrease) in the fair value of investments	1,096,201	2,933,179
Payments made by fiscal agent	128,780,226	23,347,666
Deposits made with fiscal agent	(110,234,817)	(23,371,792)
Cash Flows from Investing Activities	38,970,497	21,528,225
Net decrease in cash and cash equivalents	(48,789,925)	(29,506,253)
Cash and investments at beginning of period	381,316,951	410,823,204
Cash and investments at end of period	\$ 332,527,026	\$ 381,316,951

See accompanying note to the financial statements.

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### Reconciliation of operating loss to net cash provided (used) by

Operating activities:		
Operating loss	\$ (35,947,768)	\$ (23,246,887)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization	1,254,764	1,158,705
Depreciation	16,347,676	16,136,531
Change in assets and liabilities:		
Receivable, net	(5,322,953)	(4,988,186)
Inventory	(1,404,232)	(6,824,429)
Accrued liabilities	549,804	(23,266,509)
Compensated absences	83,531	814
Other receipts	10,471,469	10,007,533
Other expenses	(6,239,683)	(4,369,314)
Net cash provided (used) by operating activities	<u>\$ (20,207,392)</u>	<u>\$ (35,391,742)</u>

### NONCASH TRANSACTIONS:

Joint Ventures		
Nonoperating income (expense)	<u>\$ (1,486,067)</u>	<u>\$ 3,913,467</u>

See accompanying note to the financial statements.

# **CITY OF SANTA CLARA**

## **ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

#### **A. Business**

The City of Santa Clara, California's Electric Utility Enterprise Fund, which began operating as Silicon Valley Power (SVP) in 1999, commenced operations over 100 years ago in 1896. Originally, Silicon Valley Power constructed a lighting plant consisting of forty-six 2000 candlepower direct current lamps and a dynamo (a type of electric generator) which entered into service in October 1896. In late 1903, Silicon Valley Power invested \$5,000 to convert the system to alternating current and abandoned the small generating plant. Wholesale power was purchased from United Gas and Electric Company of San Jose.

Between 1903 and 1965, Silicon Valley Power purchased all of its electric power requirements from investor owned utilities. In 1965, it received an allocation of power from the Federal Central Valley Project and began to diversify its resources. Silicon Valley Power became a charter member of the Northern California Power Agency (NCPA) in June 1968. Throughout the 1970's, Silicon Valley Power and NCPA worked on behalf of all municipal electric utilities in Northern California to gain access to wholesale transmission markets and to jointly develop cost-effective electric generation resources.

In 1980, Silicon Valley Power became a generating utility for the first time in 73 years with the start of operations of the 6-Megawatt Cogen No. 1 power plant. In 1983, the 110 Megawatt NCPA Geothermal Project, the first municipally owned and operated geothermal power plant in the United States, entered service with Silicon Valley Power as lead partners holding a 55% participation share. Subsequently, Silicon Valley Power participated in further jointly owned power generation projects including hydroelectric, natural gas and coal fired generation.

Today, Silicon Valley Power has grown to approximately 8,180 streetlights and serves approximately 50,730 electric customers. As Silicon Valley Power looks to the future, it is preparing for the new competitive electric market by further streamlining its operations, and working with its customers to enhance the value they receive from municipal ownership of their electric utility.

#### **B. Basis of Presentation**

Silicon Valley Power's Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. The fund is included in the City of Santa Clara's (the City) Comprehensive Annual Financial Report, and therefore, these financial statements do not purport to represent the financial position and changes in financial position of the City.

#### **C. Basis of Accounting**

Silicon Valley Power reports its activities as a proprietary fund type (Enterprise Fund) which is maintained on the accrual basis of accounting wherein revenues are recognized in the accounting period in which they are earned regardless of whether they are received, and expenses are recognized in the period in which the related liabilities are incurred. Certain indirect costs are included in program expenses reported for individual functions and activities. Silicon Valley Power has elected under Government Accounting Standards Board

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

(GASB) Statement No. 20 *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting* to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

#### D. Measurement Focus

Enterprise funds are accounted for on a cost of services or economic resources measurement focus, which means that all liabilities associated with the activity are included on their Statement of Net Assets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total assets. Reported net assets are segregated into three categories – invested in capital assets net of related debt, restricted and unrestricted.

#### E. Due from City of Santa Clara

During the course of operations, transactions occur between Silicon Valley Power and the City for goods provided or services rendered. The related receivables, net, are classified as "Due from other funds of the City of Santa Clara" on the accompanying statement of net assets.

#### F. Inventory of Materials and Supplies

Inventory of materials and supplies is accounted for using the consumption method and is stated at average cost. Inventory consists of expendable supplies held for consumption by the electric utility.

#### G. Capital Assets

All capital assets with a value of \$5,000 or more with useful lives exceeding two years, are capitalized. These assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets (buildings and improvements: 20 to 55 years; and equipment: 3 to 25 years) and is charged as an expense against operations. Accumulated depreciation is reported on the statement of net assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Capital assets and the related obligations under lease/purchase agreements are capitalized and accounted for in accordance with FASB's Statement of Financial Accounting Standards (SFAS) No. 13 *Accounting for Leases*.

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

Interest is capitalized on construction in progress in accordance with SFAS No 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings, and Certain Gifts and Grants*. Accordingly, interest capitalized is the total interest cost for the date of the borrowings net of any interest earned on temporary investments of the borrowed proceeds until the specified asset is ready for its intended use. There was no interest capitalized for the fiscal year ended June 30, 2008.

#### H. Joint Ventures

Silicon Valley Power participates in several joint ventures, and in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, investments in these joint ventures are accounted for using the equity method, when appropriate. If Silicon Valley Power's equity in net losses of a joint venture exceeds its investments, use of the equity method is suspended except to the extent that Silicon Valley Power is obligated to provide further support or has guaranteed obligations of the joint venture.

Silicon Valley Power advances funds to certain of its joint ventures in the form of refundable advances, project advances, and operating and maintenance advances. Refundable advances accrue interest at rates stated in the related agreements. Operating, maintenance, and project advances are charged to operations when incurred.

Capitalized project costs are charged to operations in the event that a project is determined to be not economically feasible.

#### I. Compensated Absences

Vested or accumulated vacation leave and benefits are recorded as an expense and liability as the benefits accrue to the employees. Vacation pay accruals generally do not exceed the amount earned for one year, however, an employee may accumulate vacation pay earned, but not for more than two years.

In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, a liability for sick leave and benefits is accrued using the vesting method. The vesting method provides that a governmental entity estimate its accrued sick leave liability based on the sick leave accumulated at the statement of net assets date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. Estimated sick leave payments are recorded as an expense and liability by Silicon Valley Power.

#### J. Risk Management

Silicon Valley Power is covered under the City's self-insurance programs. Additional information with respect to the City's self-insurance programs can be found in the City's Comprehensive Annual Financial Report (CAFR).

# **CITY OF SANTA CLARA**

## **ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

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<b>NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)</b>
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### **K. Electric Power Purchased**

Silicon Valley Power purchases power from various utilities and agencies (including joint powers agencies) for resale to its customers (see Note 7). Silicon Valley Power also engages in numerous wholesale power transactions with the objective of reducing its overall cost of purchased power. Gross wholesale power sales and wholesale power purchases are recorded as nonoperating revenue and expense, respectively (see Note 2).

### **L. Bond Discounts/Issuance Costs**

Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges.

### **M. Revenue Recognition**

Revenues are recognized based on cycle billings periodically rendered to customers. Revenues for services provided, but not billed at the end of the fiscal year, are recognized and accrued based on estimated consumption.

Non-operating revenues are recognized when the related wholesale power is delivered.

### **N. Taxes on Income**

As an agency of the City, Silicon Valley Power falls under the review of the Internal Revenue Code Section 115 and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to federal income or state franchise taxes.

### **O. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

<b>NOTE 2 – RESTRUCTURING OF THE CALIFORNIA ELECTRIC INDUSTRY</b>
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### **A. Long-term Power Purchase Contracts**

Silicon Valley Power purchases wholesale electric power from various participants of the Western System Power Pool (WSPP), NCPA, M-S-R Public Agency, Pacific Gas & Electric Company, Western Area Power Administration, and other sources to supply the power requirements of Silicon Valley Power's electric utility customers. Silicon Valley Power actively manages the financial risks inherent in these long-term contracts,

## CITY OF SANTA CLARA

### ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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#### NOTE 2 – RESTRUCTURING OF THE CALIFORNIA ELECTRIC INDUSTRY (Continued)

including the risks arising from the changing spot market prices that move above and below the contract prices and from contract disputes that may arise from time to time. The cost of power is included in enterprise fund materials, services and supplies expense.

#### **B. Restructuring of the California Electric Industry**

##### Restructuring Legislation and Direct Access

The passage of AB1890 in 1998 triggered fundamental changes in the structure of the electric industry in California. The essential feature of AB1890 was to allow individual consumers the opportunity to buy energy directly from power producers and marketers, rather than from their local investor owned utility. This was called direct access. Generally, AB1890 provided for creation of the California Power Exchange (Cal PX), which was to be a clearinghouse for energy transactions among investor owned utilities, independent generators and power marketers, who in turn would serve direct access customers. AB1890 also created the California Independent System Operator (CAISO), which was to manage the state's bulk transmission grid. In addition, investor owned utilities were encouraged to sell a substantial portion of their generating facilities to third parties, which they did. AB1890 further provided for a four-year freeze of investor-owned utility rates and recovery by investor and publicly owned utilities during this four-year period of so-called "stranded costs" arising from what were thought at the time to be uncompetitive generation investments. AB1890 also encouraged, but did not require, municipal utilities to establish direct access programs.

In 1999, the City Council adopted a direct access program that provided for a stranded cost charge, or Competition Transition Charge, subject to legal validation of the City's and Silicon Valley Power's right to collect such a charge. That validation was secured in 2000, and Silicon Valley Power's direct access program was to commence in April 2001.

However, in 2000 and 2001, the price of electricity at the Cal PX became extremely high, and investor-owned utilities were unable to pay for the energy that they needed from the Cal PX. These conditions caused the passage of AB1X by the California legislature, pursuant to which investor owned utilities' energy procurement function was assigned to the California Department of Water Resources. AB1X also suspended direct access for investor-owned utilities, essentially until 2013. Based on this development, Silicon Valley Power has deferred implementation of its direct access program.

##### Other Effects of Restructuring

The restructuring of the electric industry has created a substantially changed market for electricity. Compared to the prior market structure, this market has exhibited increased uncertainty and volatility. In anticipation of this restructured market, the City and Silicon Valley Power developed a strategic plan to guide its electric utility's transition efforts into the new environment. As part of the Strategic Plan, the Cost Reduction Account was established to protect ratepayers from rate volatility in future years due to revenue shortfalls or unexpected costs. As of June 30, 2008, the balance in the Cost Reduction Account is \$181.53 million.

## CITY OF SANTA CLARA

### ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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#### NOTE 2 – RESTRUCTURING OF THE CALIFORNIA ELECTRIC INDUSTRY (Continued)

The strategic plan is a multi-pronged strategic initiative to address electric generation, transmission and distribution business issues given both the initially anticipated operating environment, and the operating environment that has actually evolved. The City's management believes that the strategic plan has been an effective tool for the electric utility as it has transitioned into the new environment.

##### Energy Wholesale Trading and Risk Management

SVP participates in the California deregulated wholesale gas and power market. By so doing, SVP engages in the trading of commodity forward contracts (gas and electric contracts). Activities during the fiscal year were substantially considered hedging transactions and, as such, have been accounted for using the settlement method of accounting. Accordingly, related gross purchases and sales totaling \$177.97 million and \$172.40 million, respectively, for fiscal year ended June 30, 2008, have been separately reported on the statement of revenues, expenses and changes in net assets. Associated receivables representing delivered but unbilled energy, and corresponding payable amounts totaling \$29.32 million and \$31.11 million respectively, have been reported in the statement of net assets.

The trading activity exposes SVP to various risks including market, credit and operational risks. Active and effective management of these risks associated with the power trading activity is critical to its continued success and contribution to the entire utility. A Risk Management Committee, separate from the units that create the risk exposures, overseen by a Risk Oversight Committee that reports ultimately to the City Council, administers and monitors compliance with the risk policies and procedures on a regular basis. The City and SVP believe that it has the resource commitment, effective policies and procedures, and is continuing to improve the control structure and oversight for evaluating and controlling the market and credit risks to which it is exposed.

##### Credit Arrangements

The City and SVP have trading business support deposits and credit arrangements including an \$85 million collateralized credit facility with Bank of America. This letter of credit facility with an expiration date of March 1, 2009, is available to the trading operation as a credit enhancement facility, as necessary. As of June 30, 2008, there was no need to renew the letter of credit (\$200 thousand) issued to a third party out of the total available standby letter of credit of \$85 million because SVP has qualified for a significant unsecured credit line.

The City of Santa Clara electric utility maintains credit policies, procedures, and systems that help mitigate credit risk and minimize overall credit risk exposure. The policies include transacting only with investment grade counterparties, evaluation of potential counterparties' financial condition, and an assignment of credit limits as applicable. These credit limits are established based on risk and return considerations under terms customarily available in the industry. Additionally, SVP is a signatory to the WSPP netting agreement supplement and otherwise, enters into master netting arrangements whenever possible and, where appropriate, obtains collateral prior to trade execution. Master netting agreements incorporate rights of setoff that provide for the net settlement of subject contracts with the same counterparty in the event of default.

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### NOTE 2 – RESTRUCTURING OF THE CALIFORNIA ELECTRIC INDUSTRY (Continued)

#### C. 2008 Rate Increases

In December 2007, the City Council adopted a 3% rate increase to be effective January 1st 2008, and an additional 3% increase effective January 1st 2009. The primary reasons for the increase were the increased cost and use of fuel for electric generation, combined with a significant reduction in energy available from Western Area Power Administration. City staff continues to monitor costs and revenues and to assess future rate increase recommendations.

### NOTE 3 – CASH AND INVESTMENTS

Silicon Valley Power's cash and investments pool is maintained by the City of Santa Clara except for fiscal agent cash and investments.

#### A. Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy and the California Government Code allow the City to invest in the following types of investments, provided the credit ratings of the issuers are acceptable to the City. The table also identifies certain provisions of the City's Investment Policy and the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage or Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	N/A	None	None
U.S. Agency Securities (A)	5 years	N/A	None	None
Negotiable Certificates of Deposit	5 years	N/A	30%	None
Bankers Acceptances	180 days	N/A	40%	30%
Commercial Paper	270 days	A1/P1	25%	10%
				\$40M per
California Local Agency Investment Fund	N/A	N/A	None	Account
Repurchase Agreements	1 year	N/A	None	None
Reverse Repurchase Agreements (requires City Council approval)	92 days	N/A	None	None
Tax Exempt Municipal Bonds (for yield restriction purposes)	5 years	N/A	None	None
Medium Term Corporate Notes	5 years	Top three ratings categories	15%	None
Mutual Funds	N/A	Top rating category	20%	10%
Investment Pools	N/A	Top rating category	20%	10%

(A) Securities issued by the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC)

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

#### B. Investments Authorized by Debt Agreements

The City invests bond proceeds designated for construction in instruments that are stated in the Investment Policy and in various return-guaranteed investment agreements. These investments are invested in accordance with bond indentures and the maturities of each investment should not exceed the final maturity of each bond. Bond proceed investments are reported monthly to the City Council.

Silicon Valley Power also maintains required amounts of cash and investment with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code 53601 (L) allows these funds to be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, other agreements, or certificates of participation in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

#### C. Credit and Interest Rate Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of Silicon Valley Power's investments to market interest rate fluctuations is provided by the following table that shows the distribution to Silicon Valley Power's investment by maturity.

	<u>Credit Rating</u>	<u>Carrying Amount</u>	<u>Maturity Date</u>
Investment held by fiscal agent:			
Mutual funds	AAA	\$ 12,006,098	12 months or less
Guaranteed investment contract	AA	<u>2,051,949</u>	12 months or less
Total Investments held by fiscal agent		14,058,047	
Investments not rated:			
Pooled Cash and Investments		<u>332,527,026</u>	12 months or less
Total cash and investments		<u><u>\$ 346,585,073</u></u>	

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized costs basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2008, these investments mature in an average of 176 days.

Mutual funds are available for withdrawal on demand.

### NOTE 4 – CAPITAL ASSETS

#### A. Capital Assets Summary

	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
Non Depreciable Assets:					
Land	\$ 9,677,134	\$ -	\$ -	\$ 3,873,459	\$ 13,550,593
Construction In Progress	1,427,991	18,858,591	-	(16,489,939)	3,796,643
Total Non Depreciable Assets	11,105,125	18,858,591	-	(12,616,480)	17,347,236
Capital assets being depreciated:					
Buildings and Improvements	677,768,143	-	-	11,356,476	689,124,619
Machinery & Equipment	7,547,869	100,325	(198,922)	1,260,004	8,709,276
Total capital assets being depreciated	685,316,012	100,325	(198,922)	12,616,480	697,833,895
Less accumulated depreciation for:					
Buildings and Improvements	(229,809,162)	(15,665,513)	-	-	(245,474,675)
Machinery & Equipment	(5,414,142)	(682,163)	198,922	-	(5,897,383)
Total accumulated depreciation	(235,223,304)	(16,347,676)	198,922	-	(251,372,058)
Net Depreciable Assets	450,092,708	(16,247,351)	-	12,616,480	446,461,837
Enterprise Activity Capital Assets, Net	\$ 461,197,833	\$ 2,611,240	\$ -	\$ -	\$ 463,809,073

Construction in progress as of June 30, 2008 consisted of \$3,796,643 in Electric Projects.

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### NOTE 5 -- LONG-TERM DEBT

Changes in long-term debt for the year-ended June 30, 2008, consisted of the following:

Type of Indebtedness	Issue Date	Final Maturity	Range of Interest Rates	Balance as of June 30, 2007	Debt Retired	Additions and Amortization of Discounts	Outstanding as of June 30, 2008	Current Portion
Business Type Activity Debt								
Enterprise Long Term Debt								
Electric Utility:								
1985 Series A								
Revenue Bonds	8/1/1985	7/1/2010	Adjustable	\$8,700,000	\$ 8,700,000	\$ -	\$ -	\$ -
1985 Series B								
Revenue Bonds	8/1/1985	7/1/2010	Adjustable	8,700,000	8,700,000	-	-	-
1985 Series C								
Revenue Bonds	8/1/1985	7/1/2010	Adjustable	9,900,000	9,900,000	-	-	-
1991 Series B								
Revenue								
Refunding Bonds	1/28/1992	7/1/2010	5.20%-6.35%	2,070,000	2,070,000	-	-	-
1998 Series A Subordinate								
Refunding Revenue Bonds	3/1/1998	7/1/2027	4.5%-5.25%	83,860,000	81,220,000	-	2,640,000	780,000
2003 Series A Subordinate								
Revenue Bonds	10/9/2003	7/1/2028	2.50%-5.25%	94,785,000	2,710,000	-	92,075,000	2,800,000
2003 Series B Subordinate								
Revenue Bonds	10/9/2003	7/1/2034	Adjustable	50,000,000	50,000,000	-	-	-
2008 Series A Subordinate								
Revenue Bonds	4/23/2008	7/1/2034	Adjustable	-	-	49,655,000	49,655,000	-
2008 Series B Subordinate								
Revenue Bonds	5/29/2008	7/1/2037	Adjustable	-	-	86,600,000	86,600,000	-
Unamortized Discount/Premium				(4,823,353)	-	(3,039,210)	(7,862,563)	-
Total of Electric Utility Revenue Bonds				\$ 253,191,647	\$ 163,300,000	\$ 133,215,790	\$ 223,107,437	\$ 3,580,000

# **CITY OF SANTA CLARA**

## **ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

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<b>NOTE 5 – LONG-TERM DEBT (CONTINUED)</b>
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### **A. 1985 Floating Rate Electric Revenue Bonds, Series A, B, and C**

Silicon Valley Power's 1985 Floating Rate Electric Revenues Bonds, Series A, B, and C (1985 Series A, B, and C Bonds) amounting to \$25 million, \$25 million, and \$28.3 million, respectively, were issued to provide for the redemption of the 1984 Series B Electric Revenues Bonds. They bear interest at an adjustable rate which is determined weekly. The 1985 Series A, B, and C Bonds may be tendered by the holders for purchase at a price equal to 100% of the principal amount of any bond tendered, plus accrued and unpaid interest. Bonds tendered for purchase will be remarketed and the proceeds of the remarketing will be used to pay the purchase price of the tendered bonds. On May 29, 1992, Silicon Valley Power engaged National Westminster Bank, PLC (National) as provider of an irrevocable letter of credit to provide funds to pay the purchase price of any tendered bonds which were unable to be remarketed. In August 1999, the letter of credit was replaced with a Municipal Bond Insurance Policy issued by Ambac Assurance Corporation and a standby Bond Purchase Agreement with JP Morgan Chase. On April 1, 2008, the 1985 Series A, B and C Bonds were fully redeemed.

### **B. 1991 Series B Electric Revenue Refunding Bonds**

In January 1992, Silicon Valley Power issued \$23.19 million, net of \$601 thousand in original issue discount, of 1991 Series B Electric Revenue Refunding Bonds (1991 Series B Bonds) of which \$2.56 million were issued as discount capital appreciation bonds. On July 1, 2002, the City exercised the option to redeem \$10.32 million of the Electric 1991B Bonds. The 1991 Series B Capital Appreciation Bonds mature serially in July 2007, in the aggregate amount of \$2.07 million.

Proceeds of the 1991 Series B Bonds along with 1986 Series A Electric Revenue Refunding Bonds (1986 Series A Bonds) reserve funds, were deposited into an escrow fund. This escrow fund was used to redeem the 1986 Series A Term Bonds on July 1, 1994, and was used to pay principal and interest on the 1986 Series A Bonds on July 1, 1996. Debt service on the 1991 Series B Bonds is payable from the annual revenues of Silicon Valley Power. The final portion of the Electric 1991B Bonds matured in July 2007.

### **C. Subordinated Electric Refunding Bonds, 1998 Series A**

On March 1, 1998, Silicon Valley Power issued \$89.28 million of the 1998 Subordinated Electric Revenue Refunding Series A Bonds (Electric 1998A Bonds). The Bonds mature annually in serial amounts from July 1, 1998 to July 1, 2007, and bear coupon rates ranging from 4.50 percent to 5.25 percent. On July 1, 2008 \$80.53 million of the Electric 1998A Bonds were redeemed using proceeds for Subordinated Electric Revenue Refunding Bonds, 2008 Series B. The balance of \$2.64 million of the Electric 1998A Bonds will be redeemed according to its original schedule. Since the \$80.53 million is In-Substance Defeased, the amount is excluded from the City's outstanding debt.

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# **CITY OF SANTA CLARA**

## **ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

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### **NOTE 5 – LONG-TERM DEBT (CONTINUED)**

#### **D. Subordinated Electric Revenue Bonds, 2003 Series A**

On October 9, 2003, Silicon Valley Power issued \$100 million of the Subordinated Electric Revenue Bonds, Series 2003A (Electric 2003A Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003A Bonds mature annually in serial amount from July 1, 2005 to July 1, 2025, with the final Term Bond maturity of July 1, 2028, and bear coupon rates ranging from 2.50 percent to 5.25 percent. Debt service on the Electric 2003A Bonds is subordinate to the 1985 Series A, B, and C Bonds and the Electric 1991B Bonds. Debt service on the 2003A Bonds is secured by the pledge of net revenues of the Electric Utility Enterprise Fund.

#### **E. Subordinated Electric Revenue Bonds, 2003 Series B**

On October 9, 2003, Silicon Valley Power issued \$50 million of the Subordinated Electric Revenue Bonds, Series 2003B (Electric 2003B Bonds) to finance a portion of the Donald Von Raesfeld Power Plant. The Electric 2003 B Bonds mature annually in serial amounts from July 1, 2028 to July 1, 2034. Coupon rates of the Electric 2003B Bonds are being auctioned every 28 days. Recent auction rates ranged from 3.0% to 4.5%. Debt service on the Electric 2003B is subordinate to the 1985 Series A, B, and C Bonds and the Electric 1991B Bonds. Debt service on the 2003B Bonds payment is secured by a pledge of net revenue of the Electric Utility Enterprise Fund. The Electric 2003 B Bonds were redeemed on April 28, 2008, using proceeds from Subordinated Electric Revenue Refunding Bonds 2008 Series A.

#### **F. Subordinated Electric Revenue Bonds, 2008 Series A**

On April 23, 2008, Silicon Valley Power issued \$49.66 million of the Subordinated Electric Revenue Bonds, Series 2008A (Electric 2008A Bonds) to refinance the Electric 2003B Bonds on April 28, 2008. The Electric 2008A Bonds mature annually in serial amount from July 1, 2028, to July 1, 2034. The Electric 2008A Bonds are multi-modal bonds that are authorized to be issued in variable mode. Initially, the Electric 2008A Bonds were issued in the daily mode. Payment of the principal of and interest on, and purchase price of, the Electric 2008A Bonds are made from proceeds of draws on the Letter of Credit provided by Bank of America. Debt service on the 2008A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

#### **G. Subordinated Electric Revenue Bonds, 2008 Series B**

On May 29, 2008, Silicon Valley Power issued \$86.6 million of the Subordinated Electric Revenue Bonds, Series 2008B (Electric 2008B Bonds) to refinance \$80.53 million of the Electric 1998A Bonds on July 1, 2008. The Electric 2008A bonds mature annually in serial amounts from July 1, 2009 to July 1, 2027. The Electric 2008B Bonds are multi-modal bonds that are authorized to be issued in variable mode. Initially, the Electric 2008A Bonds were issued in the weekly mode. Payment of the principal of and interest on and purchase price of, the Electric 2008A Bonds are made from proceeds of draws on the Letter of Credit provided by Dexia Credit Local. Debt service on the 2008A Bonds is secured by a pledge of net revenues of the Electric Utility Enterprise Fund.

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### NOTE 5 – LONG-TERM DEBT (CONTINUED)

#### H. Other

Various debt agreements governing Silicon Valley Power's revenue bonds contain a number of covenants including those that require Silicon Valley Power to maintain and preserve the respective enterprise in good repair and working order, to maintain certain levels of insurance, and to fix and collect rates, fees, and charges so as to maintain certain debt coverage ratios. Silicon Valley Power is in compliance with these specific covenants and all other material covenants governing the particular revenue bond issues. No event of default as defined in the bond indentures has occurred or was occurring as of the date of this report.

#### I. Repayment Requirements

As of June 30, 2008, the debt service requirements to maturity for Silicon Valley Power's long-term debt are as follows:

Year ending 30-Jun-08	Long-term debt Future debt service requirements		
	Principal	Interest*	Total
2009	\$ 3,580,000	\$ 8,434,394	\$ 12,014,394
2010	4,220,000	8,277,694	12,497,694
2011	4,425,000	8,126,619	12,551,619
2012	6,255,000	7,925,144	14,180,144
2013	6,560,000	7,706,569	14,266,569
2014-2018	38,160,000	34,629,416	72,789,416
2019-2023	49,420,000	26,041,907	75,461,907
2024-2028	62,920,000	14,835,900	77,755,900
2029-2033	37,785,000	5,164,725	42,949,725
2034-2035	17,645,000	270,600	17,915,600
	<u>\$ 230,970,000</u>	<u>\$ 121,412,968</u>	<u>\$ 352,382,968</u>

\* Interest on the 2008 Series A and B Bonds is estimated using an average interest rate of 3.0%.

#### Reconciliation of long-term debt:

#### Reconciliation of long-term debt:

Principal outstanding, as reported above	\$ 230,970,000
Deduct unamortized discount - Electric Revenue Bonds	(7,862,563)
Total long-term debt	<u>\$ 223,107,437</u>

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### NOTE 6 – PARTICIPATION IN JOINT VENTURES

#### A. Investment in Joint Ventures

Silicon Valley Power (through the City) participates in significant joint ventures: Northern California Power Agency (NCPA), Transmission Agency of Northern California (TANC), M-S-R Public Power Agency (M-S-R).

The separately issued financial statements of these joint ventures (as noted below) are available on request.

	NCPA	TANC	MSR
Date of latest audited financial statement	6/30/2007	6/30/2007	12/31/2007
Participant's address	180 Cirby Way Roseville, CA 95678	P.O. Box 15129 Sacramento, CA 95851	P.O. Box 4060 Modesto, CA 95352

As described in paragraph (D) below, the carrying value of Silicon Valley Power's investment in M-S-R is \$-0-. Silicon Valley Power's financial statements reflect the following investments in joint ventures as of June 30, 2008:

	NCPA	TANC	MSR
Participation percentage	38.60%	20.70%	35.00%
Investment	\$ 17,671,307	\$ 623,793	\$ -
Method of accounting	Equity	Equity	Equity

#### B. Northern California Power Agency (NCPA)

NCPA was formed in 1968 as a joint powers agency in the State of California. Its membership consists of eleven cities with publicly owned electric utility distribution systems, one irrigation district, one public utility district, one port authority, and four other associate member entities. NCPA is generally empowered to purchase, generate, transmit, distribute, and sell electrical energy. Members participate in the projects of NCPA on an elective basis. Therefore, the participation percentage varies for each project in which it participates.

A Commission comprised of one representative for each member governs NCPA. The Commission is responsible for the general management of the affairs, property, and business of NCPA. Under the direction of the General Manager, the staff of NCPA is responsible for providing various administrative, operating, and planning services for NCPA and its associated power corporations.

## **CITY OF SANTA CLARA**

### **ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

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<b>NOTE 6 – PARTICIPATION IN JOINT VENTURES (CONTINUED)</b>
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#### **Project Financing and Construction**

NCPA's project construction and development programs have been individually financed by project revenue bonds collateralized by NCPA's assignment of all payments, revenues, and proceeds associated with its interest in each project. Each project participant has agreed to pay its proportionate share of debt service and other costs of the related project, notwithstanding the suspension, interruption, interference, reduction, or curtailment of output from the project for any reason. Certain of the revenue bonds are additionally supported by municipal bond insurance credit enhancements.

#### **Hydroelectric Project**

NCPA contracted to finance, manage, construct, and operate Hydroelectric Project Number One for the licensed owner, Calaveras County Water District (CCWD). In exchange, NCPA has the right to the electric output of the project for 50 years from February 1982. NCPA also has an option to purchase power from the project in excess of the CCWD's requirements for the subsequent 50 years, subject to regulatory approval.

#### **Geothermal Project**

The NCPA Geothermal Plants have historically experienced greater than anticipated declines in steam production from the existing geothermal wells. Although initially operated as baseload generation projects at full capability (238 MW) by 1988, NCPA changed its steam field production from baseload to load-following and reduced average annual steam production. Despite the implementation of operating strategies to further reduce the rate of decline in steam production, including the construction of an effluent pipeline from a neighboring sanitation district, and modifications to the steam turbines and associated steam collection system, the average annual generation for 2006, the most recent data available, was 123 MW gross.

Based upon current operating protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease further, reaching approximately 117 MW by the year 2010 and remaining in excess of 72 MWG through 2031, the end of the study period.

#### **Combustion Turbine Project No. 1**

NCPA owns five dual (natural gas and fuel oil) combustion turbine units, each of which is nominally rated at 25 MW, which are collectively known as the Combustion Turbine Project No. 1. These units were completed in 1986 and are designed to provide peak power and reserve requirements and emergency support. Each purchaser is responsible under its power sales contract for paying entitlement share in Combustion Turbine Project No. 1 of all NCPA's costs of such project.

# **CITY OF SANTA CLARA**

## **ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

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<b>NOTE 6 – PARTICIPATION IN JOINT VENTURES (CONTINUED)</b>
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### **Power Purchase Contracts**

NCPA has various other long-term power purchase contracts with various suppliers on behalf of certain of its members.

### **C. Transmission Agency of Northern California (TANC)**

TANC was organized under the California Government Code pursuant to a joint powers agreement entered into by 15 Northern California utilities. The purpose of TANC is to provide electric transmission or other facilities for the use of its members through its authority to plan, acquire, construct, finance, operate and maintain facilities for electric power transmission. The joint powers agreement provides that the costs of TANC's activities can be financed or recovered through assessment of its members or from user charges through transmission contracts with its members. Each TANC member has agreed to pay a pro-rata share of the costs to operate TANC and for payment of debt service, and has the right to participate in future project agreements.

The joint powers agreement remains in effect until all debt obligations and interest thereon have been paid, unless otherwise extended by the members.

### **California-Oregon Transmission Project**

TANC is a participant and also the Project Manager of the California-Oregon Transmission Project (Project), a 339 mile long, 500 kilovolt alternating current transmission project between Southern Oregon and Central California. As Project Manager, TANC is responsible for the overall direction and coordination of all Project operations and maintenance, additions and betterments, and for general and administrative support.

The Project was declared commercially operable on March 24, 1993, with a rated transfer capability of 1,600 megawatts and provides a third transmission path between the electric systems of the Pacific Northwest and those in California. The Project has successfully met and completed the major environmental requirements. As of June 30, 2007, the most recent data available, TANC's investment in the Project was \$452.1 million, less accumulated depreciation and amortization of \$145.1 million.

In connection with its participation in the Project, TANC has an entitlement balance of the Project's transfer capability of approximately 1,242 megawatts and is obligated to pay an average of approximately 73 percent of the operating costs associated with the Project. TANC incurred and initially capitalized all costs for project construction since they were expected to be recovered through reimbursement from Project participants and from the successful operations of the Projects' transmission lines. The Project agreement among the participating members provides that each member agrees to make payments, from its revenues, to TANC for project costs incurred and for payment of debt service.

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### NOTE 6 – PARTICIPATION IN JOINT VENTURES (CONTINUED)

#### D. M-S-R Public Power Agency (MSR)

MSR is a joint power agency formed in 1980 by the Modesto Irrigation District, the City, and the City of Redding, California, to develop or acquire and manage electric power resources for the benefit of the members. The personnel of its members and contract professional staff perform other administrative and management functions of MSR. The member's income and expenses sharing ratio is as follows: Modesto Irrigation District – 50 percent, City of Santa Clara – 35 percent, and City of Redding – 15 percent.

Silicon Valley Power's equity in MSR's net losses exceeds its investments and, therefore, the equity method of accounting for the investment has been suspended. As of December 31, 2007, the date of the latest available audited financial statements, Silicon Valley Power's unrecognized share of member's deficit of MSR was \$66.6 million. Under the joint exercise of power agreement, which formed MSR, Silicon Valley Power is responsible for funding up to 35 percent of MSR's operating cost, to the extent such funding is necessary. During the year ended June 30, 2008, Silicon Valley Power made no contributions to fund its share of operating deficits. If there were such contributions, they would be included in the Electric Utility Enterprise Fund expenses.

MSR's principal activity is a 28.8 percent ownership interest in a 507-megawatt unit of a coal-fired electricity generating plant located in New Mexico (San Juan Plant). The acquisition of such ownership interest was funded through the issuance of revenue bonds, secured by a pledge and assignment of the net electric revenues of MSR and supported by take-or-pay commitments of the equity participants. MSR is also a participant in the Southwest Transmission Project, a 500-kilovolt alternating current transmission project between Central Arizona and Southern California that provides a firm transmission path for the electric power from the San Juan Plant to the MSR members. The southwest Transmission Project was completed and placed in service in April 1996.

In accordance with an agreement with the Tucson Electric Power Company (TEP), MSR has the right to certain levels of power transmission without charge and without transmission losses between the San Juan Plant in New Mexico and Palo Verde, Arizona through 2025. These rights are being utilized in connection with the delivery of power from the San Juan Plant to the members or to third party purchasers.

On June 1, 2005, MSR entered into a series of agreements with PPM Energy (as amended in October 2005 and restated effective February 1, 2006) to purchase wind power energy with nominal installed capacity of approximately 199.5 MW and an expected annual capacity factor of about 35%, as firmed, shaped, and delivered to the California-Oregon Border (COB) for a twenty-year period. Deliveries of energy under this project are scheduled to begin October 1, 2006. The participation in this project is as follows:

Modesto Irrigation District	12.5%
City of Santa Clara	52.5%
City of Redding	35.0%

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### NOTE 6 – PARTICIPATION IN JOINT VENTURES (CONTINUED)

#### E. Contingent Liability

Under the terms of the various joint venture agreements, Silicon Valley Power is contingently liable for a portion of the long-term debt of the entities under take-or-pay agreements, letters of credit, guarantees or other similar agreements. Based on the most recent audited financial statements of the individual joint ventures, Silicon Valley Power was contingently liable for long-term debt as follows:

	Total Debt	Silicon Valley Power's Participating Share	Silicon Valley Power's Contingent Liability
TANC	\$ 346,632,226	20.70%	\$ 71,752,871
NCPA	628,183,000	38.60%	242,478,638
MSR	396,180,000	35.00%	138,663,000
TOTAL	<u>\$ 1,370,995,226</u>		<u>\$ 452,894,509</u>

In addition, Silicon Valley Power would be, under certain conditions, liable to pay a portion of costs associated with the operations of the entities. Under certain circumstances, such as default or bankruptcy of the other participants, Silicon Valley Power may also be liable to pay a portion of the debt of these joint ventures on behalf of those participants and seek reimbursement from those participants.

### NOTE 7 – MAJOR SUPPLIERS

Silicon Valley Power purchases wholesale electric energy from various participants of the Western System Power Pool, NCPA, M-S-R Public Power Agency, PG&E, Western Area Power Administration, and other sources to supply energy requirements of its retail electric utility customers.

# CITY OF SANTA CLARA

## ELECTRIC ENTERPRISE FUND (SILICON VALLEY POWER) NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### NOTE 8 – ENRON CLAIM

The City's Electric Utility Fund had a Master Agreement with Enron Power Marketing, Inc. beginning in September 1999 covering short and long term energy trading commitments and transactions. Pursuant to the Master Agreement, Silicon Valley Power engaged in multiple short term energy transactions with Enron from September 1999 through early December 2001 and entered into two long-term agreements for the purchase of energy, one ending in 2006 and the other in 2009. The short-term transactions included both sales and purchases of energy between Silicon Valley Power and Enron.

On December 2, 2001 Enron filed for bankruptcy in New York. Within a month, Enron ceased making any deliveries of energy to the City. In July 2002, Enron filed an adversary proceeding against the City claiming the City had breached the Master Agreement. Enron claimed the City failed to pay for energy purchases demanded shortly before it filed for bankruptcy. Enron alleged that it is permitted to claim "in excess of \$100 million" from the City as "Early Terminations Damages" under the Master Agreement.

In 2002, the Federal Energy Regulatory Commission (FERC) opened a Gaming and Partnership Proceeding in which Enron is the only remaining Respondent. In July 2004, the City also filed its own Complaint at the FERC against Enron under Section 206 of the Federal Power Act. Under Section 1290 of the Energy Policy Act of 2005 ("the Cantwell Amendment"), exclusive jurisdiction was given to FERC to determine termination disputes.

During the spring of 2006, the City agreed to settlements with Enron and the FERC Trial Staff, ending four years of litigation. Under the settlement, a one-time payment of \$36.5 million was made by the City to Enron; Enron granted a Class 6 unsecured claim to FERC Trial Staff of \$5 million; and FERC Trial Staff allocated and assigned \$4 million of the unsecured claim to the City. The settlements have been approved by the Bankruptcy Court and by the FERC Commission. The settlement was paid out of reserve and ends an expensive and lengthy litigation involving multiple parties in multiple legal proceedings. A portion of the \$36.5 million had been recognized as an expense in prior years resulting in a net expense of \$21.5 million for fiscal year 2005-06.

### NOTE 9 – COMMITMENTS AND CONTINGENCIES

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation, which is likely to have a material adverse affect on the financial position of the fund.

Silicon Valley Power has future commitments under construction projects as follows:

	Authorized	Expended Through June 30, 2008	Remaining Commitments
Electric Projects	\$ 16,835,117	\$ 3,796,643	\$ 13,038,474



VALUING THE DIFFERENCE

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**Vavrinek, Trine, Day & Co., LLP**

**Code of Professional Conduct**

**February 2005**



## ***Our Mission Statement***

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***At VTD, we are dedicated to providing the highest level of quality service to our clients based on our ongoing commitment to integrity, teamwork and strong ethical principles and standards.***



VALUE THE DIFFERENCE

## Introduction

*Throughout our careers, each of us is faced with numerous challenges and problems that require us to exercise effective decision-making procedures. It is the means by which we perform these procedures, the professionalism and integrity that we "bring to the table", that encapsulates the substance of Vavrinek, Trine, Day & Co., LLP (VTD).*

*Our Code of Professional Conduct has been adopted by our Executive Committee and is designed to provide guidance and clarity to all our personnel regarding the conduct of business in an honorable and ethical manner and with regard to the highest level of professionalism.*

*We are honored to be recipients of a high level of trust that has been extended to us by our clients and others we deal with in the ordinary course of business. Accordingly, we never want to take this trust for granted ... we must take our responsibility for ethical behavior seriously throughout our entire Company.*

*Our Code incorporates policies and procedures along with references to professional standards and company documents to assist you in making appropriate decisions and choices on a regular basis. It is expected that you will employ the contents of our Code in your dealings with other Firm personnel, clients and other persons and entities that you come into contact within the conduct of business.*

*No single code can effectively solve all matters and issues that one can be exposed to during the numerous and varied experiences that all of us are faced with. However, the ongoing success of our Firm depends on our collective adherence to compliance with our Code.*

*Ultimately, it is our reputation that signifies what we are truly about. Let us all commit to ethical and professional behavior to support VTD's mission to provide the highest quality product to our clients.*

Sincerely,

A handwritten signature in dark ink, appearing to read "Ron S. White". The signature is fluid and cursive, with the first letter of the first name being a large, stylized capital 'R'.

Ron S. White  
Managing Partner



VALUE THE DIFFERENCE

## ***Major Principles***

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*VTD's Code of Professional Conduct consists of four major principles that have been created to provide guidance on standards of professional behavior and ethical responsibility. They are:*

- ***Independence, Integrity and Objectivity***
- ***Employee Interworkings and Development***
- ***Professional Relationships***
- ***Our Responsibility***



VALUE THE DIFFERENCE

## ***Independence, Integrity and Objectivity***

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### ***Independence***

#### **▪ *Complying with Firm's Quality Control Procedures***

- *We will comply with VTD's quality control procedures and will update these procedures as appropriate.*
- *We will comply with VTD's independence rules and those established by the agencies setting the standards for our practice.*
- *We will monitor our independence on a continual basis.*
- *We will avoid any relationships that may impair independence.*
- *We will notify the Quality Control Committee of any potential prohibited transaction as soon as we become aware of such a situation.*



VALUE THE DIFFERENCE

## ***Independence, Integrity and Objectivity***

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### ***Independence, (Cont'd.)***

- ***Adherence to Rules and Regulations***

1. ***AICPA Professional Standards***

- a. *Auditing Standards (GAAS)*
- b. *Compilation & Review Services*
- c. *Code of Professional Conduct*
- d. *Management Advisory Services*
- e. *Quality Control and Review*
- f. *Tax Practice*

2. ***FASB and GASB Accounting  
Standards (GAAP)***

- a. *General Standards*
- b. *Industry Standards*

3. ***State Board of Accountancy Rules  
and Regulations***



VALUE THE DIFFERENCE

## ***Independence, Integrity and Objectivity***

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### ***Independence, (Cont'd.)***

- ***Adherence to Rules and Regulations,  
(Cont'd.)***

4. *Public Company Accountancy  
Oversight Board (PCAOB)*
5. *Governmental Auditing Standards  
(Yellow Book)*
6. *Securities and Exchange Commission  
(SEC)*
7. *Internal Revenue Service (IRS) and  
applicable state tax laws*



VALUE THE DIFFERENCE

## ***Independence, Integrity and Objectivity***

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### ***Integrity***

#### ***▪ Records Maintenance and Documentation***

- We maintain appropriate documentation for our business clients.*
- We retain working papers and other documentation in accordance with our written procedures and in accordance with applicable state and federal laws.*
- We will never destroy or alter any records for an improper reason or upon being informed of an investigation.*



## ***Independence, Integrity and Objectivity***

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### ***Integrity, (Cont'd.)***

#### ***▪ Time, Billings and Expenses***

- We will charge our clients a fee for the services performed as agreed in our engagement documents.*
- We will accurately report our hours worked in accordance with our established procedures for recording time and appropriately use the client codes.*
- We will accurately record any expenses incurred.*

#### ***▪ How we Compete***

- We strive to outperform our competition fairly and honestly.*
- Our competitive advantage is derived through superior performance, not through unethical business practices.*



VALUE THE DIFFERENCE

## ***Independence, Integrity and Objectivity***

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### ***Objectivity***

#### ***▪ Conflicts of Interest***

- We maintain objectivity and independence in appearance and in fact.*
- We will take immediate action to resolve any conflict of interest that may arise.*
- We do not accept inappropriate pressure from clients.*
- We will not seek employment with a client of the Firm without first notifying the office managing partner.*
- We will not accept employment with a publicly traded corporation or its affiliate within 12 months of the date of the issuance of the audit report if we have exercised significant judgment in the audit process.*



VALUE THE DIFFERENCE

## ***Independence, Integrity and Objectivity***

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### ***Objectivity, (Cont'd.)***

- ***Conflicts of Interest, (Cont'd.)***

- *We will monitor the status of any unpaid professional fees and determine the appropriate course of action to be taken as defined in our policy.*

- ***Gifts from Clients***

- *We prohibit acceptance of gifts and sample products from our clients, unless they are given in the interest of good taste and client relations and where the monetary value of the gift or sample is nominal.*



## ***Employee Interworkings and Development***

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### **▪ *Teamwork***

- *We will work as a team in order to achieve success.*
- *We are committed to working in groups and encourage open communication to achieve optimal results.*

### **▪ *How We Treat Each Other***

- *We will provide a safe work environment for each other.*
- *We are aware of what constitutes inappropriate conduct and are committed to maintain a workplace that is free from harassment.*



VALUE THE DIFFERENCE

## ***Employee Interworkings and Development***

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### **▪ Training**

- *We conduct various training programs and update our programs as needed to ensure we are including any new guidelines or procedures as mandated by the applicable standards.*
- *We will participate in the various training programs offered by VTD to enhance our technical experience within our areas of expertise.*
- *We will monitor and track our continuing education and ensure they comply with the legal requirements of the regulatory agencies and VTD's policy.*



VALUE THE DIFFERENCE

## ***Employee Interworkings and Development***

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### **▪ *Individual Achievement/Personal Growth***

- *We are encouraged to progress professionally as far as we are able.*
- *We believe that professional growth is encouraged by belonging to professional societies.*
- *We will employ those that have the capacity to grow and learn.*
- *We will develop and maintain a staff with the best skills and the finest talents.*
- *As representatives of the firm, we are committed to uphold the integrity of the firm.*



## ***Professional Relationships***

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### **▪ Our Clients**

- *We will strive to offer services at the highest level of quality.*
- *We have an ongoing commitment to integrity and to provide strong ethical principles and standards while providing the services we offer.*
- *We will not accept special favors from our clients which conflict with maintaining independence.*
- *We obtain our work through the ethical conduct of our practice.*
- *We will avoid working with clients whose practices would impair us from maintaining compliance with our code of conduct.*



## ***Professional Relationships***

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- ***Working with Regulators and All Relevant Parties***
  - *We will work with regulators, professional organizations, and any other relevant agencies to ensure we are up-to-date with any new regulations or rules affecting our practice.*
  - *We will comply with any requirements mandated by these agencies.*
  - *We will not belong to any organization that encourages the commission of acts discreditable to the profession or that engages in practices of invidious discrimination on the basis of race, color, sex, religion, national origin, ancestry, or physical disability.*



## ***Our Responsibility***

*As a member of VTD, we are responsible for complying with this code and any policies we have adopted to accompany this Code of Professional Conduct. If we violate this code, we are harming the commitment we have made to ourselves as professionals and the reputation of the Firm.*

- ***Seeking Advice and Reporting Legal or Ethical Violations***

*If you become aware of an unethical, illegal or some other act that is in violation of the standards established for our profession, you should contact the Quality Control Director, the Practice Group Chair or technical representative, or a member of the Executive Committee.*

- ***Disciplinary Action***

*Failure to comply with the policies and procedures as referenced above will result in appropriate corrective and/or disciplinary action.*



VALUE THE DIFFERENCE

## ***Our Responsibility***

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*If you are faced with a difficult decision or are unsure of what action to take, ask yourself the following questions to help determine the appropriate course of action:*

*Questions to Consider:*

- 1. Are my actions in compliance with the standards in our profession and with VTD's standards?*
- 2. Will my actions harm the reputation of VTD?*
- 3. How will a third party respond to the actions taken?*
- 4. Is my choice of action the most ethical and do I feel comfortable with my choice?*
- 5. Can I sleep at night with this decision?*



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*Our Code of Professional Conduct should serve as a tool to provide guidance on ethical and legal responsibilities. It should be used in conjunction with the policies and procedures established by our Firm. This code does not cover every situation but provides a resource for questions and support. It is our responsibility to adopt this Code of Professional Conduct and to maintain our professionalism and ethical responsibilities as required by our profession.*

*Our Code is vital to the success both past and future of VTD and it is imperative that all of us abide by it in order to make our Firm all that it can be.*



VALUE THE DIFFERENCE

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**Code of Professional Conduct**

# Statement on Auditing Standards

April 1988

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Issued by the Auditing Standards Board

**AICPA** American Institute of  
Certified Public Accountants

## Communication With Audit Committees

1. This Statement establishes a requirement for the auditor to determine that certain matters related to the conduct of an audit are communicated to those who have responsibility for oversight of the financial reporting process.<sup>1</sup> For purposes of this document, the recipient of the communications is referred to as the *audit committee*. The communications required by this Statement are applicable to (1) entities that either have an audit committee or that have otherwise formally designated oversight of the financial reporting process to a group equivalent to an audit committee (such as a finance committee or budget committee) and (2) all Securities and Exchange Commission (SEC) engagements.<sup>2</sup>

2. This Statement requires the auditor to ensure that the audit committee receives additional information regarding the scope and results of the audit that may assist the audit committee in overseeing the financial reporting and disclosure process for which management is responsible. This Statement does not require communications with management; however, it does not *preclude* communications with management or other individuals within the entity who may, in the auditor's judgment, benefit from the communications.

3. The communications may be oral or written. If information is communicated orally, the auditor should document the communication by appropriate memoranda or notations in the working papers. When the auditor communicates in writing, the report should indicate that it is intended solely for the use of the audit committee or the board of directors and, if appropriate, management.

4. The communications specified by this Statement are incidental to the audit. Accordingly, they are not required to occur before the issuance of the auditor's report on the entity's financial statements so long as the communications occur on a timely basis. There may be occasions, however, when discussion of certain of the matters (specified by paragraphs 6 through 14 below) with the audit committee prior to the issuance of the report may, in the auditor's judgment, be desirable.

5. It may be appropriate for management to communicate to the audit committee certain of the matters specified in this Statement. In such circumstances, the auditor should be satisfied that such communications have, in fact, occurred. Generally, it is not necessary to repeat the communication of recurring matters each year. Periodically, however, the auditor should consider whether, because of changes in the audit committee or simply because of the passage of time, it is appropriate and timely to report such matters. Finally, this Statement is not intended to restrict the communication of other matters.

## **Matters to Be Communicated**

### **The Auditor's Responsibility Under Generally Accepted Auditing Standards**

6. An audit performed in accordance with generally accepted auditing standards may address many matters of interest to an audit committee. For example, an audit committee is usually interested in the internal control structure and in whether the financial statements are free of material misstatement. In order for the audit committee to understand the nature of the assurance provided by an audit, the auditor should communicate the level of responsibility assumed for these matters under generally accepted auditing standards. It is also important for the audit committee to understand that an audit conducted in accordance with generally accepted auditing standards is designed to obtain reasonable, rather than absolute, assurance about the financial statements.

### **Significant Accounting Policies**

7. The auditor should determine that the audit committee is informed about the initial selection of and changes in significant accounting policies or their application. The auditor should also determine that the audit committee is informed about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. For example, significant accounting issues may exist in areas such as revenue recognition, off-balance-sheet financing, and accounting for equity investments.

### **Management Judgments and Accounting Estimates**

8. Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The auditor should determine that the audit committee is informed about the process used by management in formulating particularly sensitive accounting estimates and about the basis for the auditor's conclusions regarding the reasonableness of those estimates.

### **Significant Audit Adjustments**

9. The auditor should inform the audit committee about adjustments arising from the audit that could, in his judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process. For purposes of this Statement, an audit adjustment, whether or not recorded by the entity, is a proposed correction of the financial statements that, in the auditor's judgment, may not have been detected except through the auditing procedures performed. Matters underlying adjustments proposed by the auditor but not recorded by the entity could potentially cause future financial statements to be materially misstated, even though the auditor has concluded that the adjustments are not material to the current financial statements.

### **Other Information in Documents Containing Audited Financial Statements**

10. The audit committee often considers information prepared by management that accompanies the entity's financial statements. An example of information of this nature would be the "Management's Discussion and Analysis of Financial Condition and Results of Operations" that certain entities that file reports with the SEC are

required to present in annual reports to shareholders. SAS No. 8, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 550), establishes the auditor's responsibility for such information.<sup>3</sup> The auditor should discuss with the audit committee his responsibility for other information in documents containing audited financial statements, any procedures performed, and the results.

### **Disagreements With Management**

11. Disagreements with management may occasionally arise over the application of accounting principles to the entity's specific transactions and events and the basis for management's judgments about accounting estimates. Disagreements may also arise regarding the scope of the audit, disclosures to be included in the entity's financial statements, and the wording of the auditor's report. The auditor should discuss with the audit committee any disagreements with management,<sup>4</sup> whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the entity's financial statements or the auditor's report. For purposes of this Statement, disagreements do not include differences of opinion based on incomplete facts or preliminary information that are later resolved.

### **Consultation With Other Accountants**

12. In some cases, management may decide to consult with other accountants about auditing and accounting matters. When the auditor is aware that such consultation has occurred, he should discuss with the audit committee his views about significant matters that were the subject of such consultation.<sup>5</sup>

### **Major Issues Discussed With Management Prior to Retention**

13. The auditor should discuss with the audit committee any major issues that were discussed with management in connection with the initial or recurring retention of the auditor including, among other matters, any discussions regarding the application of accounting principles and auditing standards.

### **Difficulties Encountered in Performing the Audit**

14. The auditor should inform the audit committee of any serious difficulties he encountered in dealing with management related to the performance of the audit. This may include, among other things, unreasonable delays by management in permitting the commencement of the audit or in providing needed information, and whether the timetable set by management was unreasonable under the circumstances. Other matters that the auditor may encounter include the unavailability of client personnel and the failure of client personnel to complete client-prepared schedules on a timely basis. If the auditor considers these matters significant, he should inform the audit committee.

### **Effective Date**

15. This Statement is effective for audits of financial statements for periods beginning on or after January 1, 1989. Early application of the provisions of this Statement is permissible.

*The Statement entitled Communication With Audit Committees was adopted by the assenting votes of nineteen members of the board, of whom four, Messrs. Dodson, Gunther, Johnson, and Ten Eyck, assented with qualifications. Messrs. Clancy and Compton dissented.*

Messrs. Dodson, Gunther, Johnson, and Ten Eyck qualify their assents because they believe the audit engagements to which this Statement applies, as described in paragraph 1, are too limited. Mr. Ten Eyck believes that, as a result of this limited applicability, communication of matters described in this Statement are not required for many audit engagements where such matters are also relevant. He also believes that this limited applicability is inconsistent with the objective of improving auditor communications that is the basis for issuing this Statement.

Messrs. Johnson and Dodson believe that communication of the matters described in this Statement is important in assisting in the oversight of the financial reporting and disclosure process in many entities that do not have a designated audit committee or other oversight group. Mr. Johnson believes that governmental and not-for-profit entities are two major categories of such entities. Accordingly, he believes that this Statement should be applicable to independent audits of all entities other than those that are owner-managed. Mr. Dodson believes that this Statement should be applicable to all banks, thrifts, and credit unions.

Messrs. Clancy and Compton dissent to the issuance of this Statement because they do not believe that the applicability of Statements on Auditing Standards should be established on the basis of specific attributes of the audited entity. Mr. Clancy also believes that the requirements of this Statement should be applicable to all audit engagements.

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DAN M. GUY

*Vice President, Auditing*

MIMI BLANCO

*Manager, Auditing Standards*

**Note:** *Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the Institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute's Code of Professional Conduct requires compliance with these standards.*

<sup>1</sup> Communication with the audit committee by the independent auditor on certain specified matters when they arise in the conduct of an audit is required by other standards, including—

- SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit.*
- SAS No. 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities.*
- SAS No. 54, *Illegal Acts by Clients.*
- SAS No. 36, *Review of Interim Financial Information (AICPA, Professional Standards, vol. 1, AU sec. 722).*

This Statement does not modify the requirements of these standards.

<sup>2</sup> For purposes of this Statement, an SEC engagement is defined as one that involves the audit of the financial statements of—

1. An issuer making an initial filing, including amendments, under the Securities Act of 1933 and the Securities Exchange Act of 1934.